

# COMMERCIAL RELATIONS BETWEEN INDIA AND JAPAN

BY

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## PREFACE

One of the characteristic features of the economic history of recent times is the creation of a network of restrictions on international trade. The only free trade country in the world has become protectionist. Most countries are trying to organise their economic life on national lines, and are regulating their trade in consonance with their general economic policy. Tariff walls, bilateral agreements, quotas, restrictions on imports or exports and the like determine the channels of trade. Though the experts have pointed out the folly of these methods which result in the shrinkage of international trade and the lowering of the standard of living of different peoples, it is generally believed that the interference of the State in trade as in other economic activities in one form or another has come to stay.

These international developments have had their influence on the commercial policy of the Government in this country, and there have consequently been appreciable changes in the nature and direction of our foreign trade. Customs revenue is now the most important source of income of the Central Government. In the case of certain commodities we have high revenue duties, while in the case of a few others there have been introduced protective duties, following the change in our fiscal policy in 1924. More recently the Government has adopted a system of preferential duties for Empire goods. The State has also attempted to regulate our trade with other countries; the trade with Japan, which is only next in importance to that with the U. K. is, for instance, now regulated by the Indo-Japanese Trade Agreement.

In view of the importance that questions of trade have thus assumed, and the need of safeguarding our interests in foreign markets, conditions which are liable to be affected by changes in national policies, the Government of India have recently decided to appoint Trade Commissioners in several centres. Such Commissioners are already working in London, Hamburg, Milan and Osaka and it is

expected that similar appointments in a few other centres will soon be made

These tendencies establish the need for a more systematic study of our trade relations with other countries and of problems arising from the same. Though some literature exists on this subject, it is chiefly with reference to the U. K. Till recently it has been the United Kingdom, the British Empire and the western world that have mainly attracted the attention of students in this country. The interest in our trade with other countries is only of recent origin.

The present work aims at a systematic study of our commercial relations with Japan. The importance of such a study need not be emphasized. Whereas since the war our trade with the United Kingdom and the British Empire is on the whole declining, that with Japan is increasing. Further, in recent years the competition of Japanese industries with our industries has become very acute, and the "cheap" goods from that country have hit them very hard. The chief sufferer has of course been the Indian Cotton Textile Industry. To protect that industry, the Government had to raise the import duties on cotton goods, which led to the boycott of Indian cotton by Japan, followed by negotiations for a trade agreement with Japan.

Besides this, Japan is also interesting to us from another point of view. In more than one sense, India is on the threshold of a new era. Our trade and industries are not well organised, and there are many deficiencies in our economic organisation. About half a century ago, Japan was in nearly the same position as India is to-day. But since then she has made a tremendous progress in her national life, and from a position of insignificance, she has come to be a "Great Power," feared and admired by the nations of the world. Thus Japan points us a way—though not the only one—whereby we in this country can develop our trade and industry and raise our standard of living.

We have therefore devoted the first two chapters of this work to an examination of the economic development of Japan. We also believe that in order to have an intelligent grasp of the issues arising from our trade with any country, we should have at least a general understanding of the economic organisation of that country ; it is im-

possible to understand the course of the trade in the absence of such a background. These two chapters are thus intended to prepare the reader for the study of trade statistics, on which the subsequent chapters are based. After an analysis of the relevant statistics in chapters three, four and five, the tendencies thus revealed are reviewed in brief in chapter six. Chapter seven discusses the nature of the Japanese Competition, of which we hear so much. The last chapter examines critically the two agreements made with Japan in recent years.

We have purposely kept the treatment of the subject within reasonable limits by confining the discussion to essential points only. We have, however, given ample references for the sake of those who desire to explore the subject further. Detailed references to the statistical sources have not been given as this material has been obtained from the well-known statistical publications issued both in India and Japan.

This work was first written in the form of a thesis for the M.A. degree of this University by Mr. Maluste during the years 1932-34, when he worked as a research Scholar in this School. Certain significant changes have occurred in our trade relations with Japan since then, and it was found necessary to revise and rewrite the book in the light of recent events before publication. Though I undertook to do this work at the request of Mr. Maluste, who was then away from India, the publication of the book was delayed, as due to other pre-occupations, I could not devote the necessary time to it. The delay was not, however, entirely unwelcome; it made it possible for us to take note of the recent agreement with Japan.

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31st August, 1937.*

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*31st August, 1937.*

D. N. MALUSTE

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Belting for machinery Bobbins Boots and shoes. Brushes Portland cement. Tiles. Buttons, of all sorts. Chemicals and chemical preparations. Clocks and watches Drugs and medicines. Camphor Dyeing and tanning substances Aniline dye Earthenware and porcelain. Fish-dry unsalted. Furniture of materials other than wood Glass and glassware Glue Hardware Instruments, apparatus and appliances. Liquors, Ale, beer and porter Machinery and mill-work. Cotton weaving. Machinery. Matches. Metals and ores. Oils. Paints and colours Paste and pasteboard. Provisions and oilman's stores. Rubber manufacturers. Soap Spices Ginger. Stationery Sugar candy Toilet requisites, etc Toys and requisites for games Umbrellas and umbrella fittings. Vehicles Wax of all kinds other than Paraffin wax Wood

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# CHAPTER I

## ECONOMIC ORGANISATION OF JAPAN

### PHYSICAL CHARACTERISTICS

The Empire of Japan consists of Japan proper, a group of four islands—Honshū (mainland), Kyūshū, Shikoku and Hokkaido (Yezo) together with the Southern half of Sakhalin, known as Karafuto, which belongs to the same geographical group, although ranking as a colony; it includes also the island of Formosa, now called Taiwan, the Kurile Islands called Chishima, the Luchu Islands, called Rinkō and the Pescadores Islands called Hokoto, besides the large mainland peninsula called Chosen (Korea) and a number of smaller islands.<sup>1</sup> While examining the economic position of Japan, we must take into account not only Japan proper, but also her colonies, though for purposes of studying trade we have separate statistics for Japan proper.<sup>2</sup>

### AREA

Japan proper covers 147,201 square miles as compared to 121,600 square miles of the British Isles ; if we

<sup>1</sup> Cf. E G R Taylor *Production and Trade*, p 279, and "Japan Trade," edited by Osaka Commercial Museum, Vol. 2, No 4, July 1932, p 51.

<sup>2</sup> Cf. Stamp : *Asia*, p. 536.

add to this the area of the neighbouring island groups the total comes to 152,000 square miles. Chosen (Korea) has an area of 85,228 square miles, Taiwan 13,840 and Karafuto (Japanese Sakhalin) 13,934. This small area of Japan is in strong contrast to the large area of India which is 1·8 million square miles including Indian States.

### MOUNTAINOUS NATURE

The Japanese islands are mountainous throughout and many of the mountain peaks are volcanic, and earthquakes, usually of a minor character but occasionally very severe, are a frequent occurrence. The prevalence of these volcanic conditions reduces the security of life and property, and to that extent adversely affects the economic life and institutions of the people. On many occasions in the past, Japan has sustained considerable loss on account of these disturbances and the greatest of course was, as is well known, the earthquake of September 1923. On account of the mountainous nature of the land the proportion of arable land to the total area is very small; there are no extensive plains except the Kwanto Plain around Tokyo, which supports as many as ten million people. In fact, broadly speaking, the Japanese Empire comprises two economic zones. There is an inner, densely populated, one might say overpopulated, zone, unable to produce sufficient food to be self-supporting, and to a considerable extent industrialized, and an outer, under-populated zone which

is able to produce a certain surplus of food and raw material and make it available to the inner zone. Though the mountainous nature of the country has adversely affected her in some respects, it also has its advantages. It has resulted in a rapid flow of the rivers, and has thus made possible the development of Japan's electrical industry, a motive power for her other industries.<sup>1</sup> This is indeed a great advantage. As one writer<sup>2</sup> has remarked, "Water power is an asset of great importance to Japan." This asset though yet not fully developed is already making a mark on the national economy. It has been said that more than half of the motive power in Japanese factories is electric. Japan gains in another respect also from her mountainous nature; it has given her many beautiful sights and scenes, and many tourists are attracted to her as they are to the Alps or to Kashmir.

#### GEOGRAPHICAL POSITION COMPARED WITH THAT OF GREAT BRITAIN

If we look at the world map, we find that Japan's geographical position is considerably similar to that of the U. K. They are both islands in an approximately

<sup>1</sup> "Probably no country in the world is converting potential water power into electrical energy at so great a rate as is Japan. It is in the utilization of these great resources of national wealth that Japan is seeking the solution to the ever pressing problem of fuel and rising costs of labour, and is hoping to enable Japanese industries to compete successfully in the markets of the World. "British Committee on Industry & Trade Survey of Overseas Markets" p. 407

<sup>2</sup> Crocker. *The Japanese Population Problem*, p. 156.

corresponding position in each of the two hemispheres. The very situation, the natural resources and characteristics of the islands have had and still have a profound influence upon the people, their civilisation, their ambitions and policies.<sup>1</sup> Like the British Isles Japan lies off an extensive land area. The geographical position of Japan to the mainland of Asia, closely corresponds to that of England, in respect to the mainland of Europe; this has appreciably contributed to its power and strength.<sup>2</sup> As we shall see later in greater detail, it has considerably helped the growth of Japan's foreign trade by offering to it large markets near at hand.<sup>3</sup> Further, like the British Isles, Japan has an extensive and indented coast line with excellent harbours. In proportion to its area Japan has a remarkably long coast line. There is one knot of coast line as against two square miles of land area in Japan, whereas in Greece and Norway which are considered to have the longest coast lines of all the other countries, there is not even one knot of coast line to each 25 square miles.<sup>4</sup> This has given Japan a prosperous fishing industry, first in the world,<sup>5</sup> and has also contributed to the growth of her mercantile marine.

<sup>1</sup> Cf. Latourette : *The Development of Japan*.

<sup>2</sup> Cf. Osborne : *The New Japanese Peril*, p. 36.

<sup>3</sup> Cf. "The nearness of Japan to many eastern markets facilitates her business very much"—Pearse. *The Cotton Industry of Japan and China*, p. 115.

<sup>4</sup> Cf. The New Japan Year Book, 1928, p. 51.

<sup>5</sup> Vide Moulton : *Japan*, p. 51.

## CLIMATIC CONDITIONS

Climatic conditions considerably affect the industrial efficiency of a people. In Japan they vary from warm temperate in the South to cool temperate in the North, while throughout the islands there is plentiful Summer rainfall. The west and the north have a bleak inclement winter, but the east and the south have short and mild winters.<sup>1</sup> It is in those regions where these pleasant conditions prevail, and where, there is the greatest summer heat combined with heavy rainfall that the harvests are most abundant, double cropping being possible. It is here therefore, that the bulk of the population is to be found. Though when there is a severe winter, people have to suffer intensely due to the scanty shelter their wooden houses afford, still it must be recognized that the climatic conditions in Japan are advantageous to industries like cotton spinning; besides, they have a good influence on the efficiency of the workers.

## POPULATION

We have already noted the small size and the mountainous nature of Japan; within a small area of 150 thousand miles, with only 16 million acres of arable land, she has to support 69 million people, increasing every year by about 100,000. The following table will give an idea of the growth of numbers in Japan:—

<sup>1</sup> Cf. Cousins · *The New Japan*, p. 292.

Year	Population in millions	Index Number (1872-100)
1846	27	101
1872	35	100
1900	44	126
1920	55	159
1930	64	185
1935	69	199

This large increase is due, particularly in recent years, more to the fall in death-rate, than to an increase in birth-rate. Infant mortality has been considerably reduced in the period after the War. Competent observers expect a still greater increase in the population in years to come, and the problem of providing food and occupation for the able bodied persons has already become grave in Japan. In fact, this problem dominates Japanese policy in many spheres.<sup>1</sup> It has been further noticed that there is a growing congestion of population in urban areas, at the expense of rural areas. Those seeking work in industry and commerce are thus on the increase.<sup>2</sup>

### POPULATION AND FOOD SUPPLY

As has already been pointed out, Japan cannot grow food sufficient to feed her growing population. Till recently the imports of food products into Japan have not been very great, partly because of the increased domestic production obtained as a result of extension of cultivation and employment of improved methods,

<sup>1</sup> Cf. "Growth of population and occupational changes in Japan, 1920-35," Prof. Uyeda

<sup>2</sup> Cf. Prof. Uyeda, *op. cit.*

and partly because of the peculiar preference of the Japanese for domestic rice—their chief food. But in recent years, to meet the needs of a growing population, Japan is increasing her imports of foodstuffs at a fairly rapid rate. These imports would have been still greater, but for the protectionist policy adopted by the Japanese Government<sup>1</sup>. It does not however seem that this can go on for a long time; Japan will either have to restrict the growth of her population or import food supplies from external sources in exchange for manufactured goods. This was the policy that England followed and she succeeded because of her special advantages. In view of the recent rise of tariffs in different countries due to economic nationalism, it is doubtful whether Japan will be able to do the same. It has been suggested that Japan can increase agricultural production by the mechanisation of her agriculture and adoption of improved methods. But agricultural authorities have proved that even with the maximum improvement effected by modern scientific methods of intensive cultivation, Japanese agriculture cannot, in the limited space and on the barren soil, of its few volcanic islands of lava and sand, produce enough to feed Japan's enormous population.<sup>2</sup>

#### POSSIBILITIES OF EMIGRATION

The industrialized countries of the West, like England and France, solved their problem of population

<sup>1</sup> Cf. Wright. *The American Tariff and Oriental Trade*, p. 51

<sup>2</sup> Cf. I. F. Ayusawa. *Industrial conditions and Labour Legislation in Japan*, p. 1.

through emigration. There are little hopes of Japan being able to do so. Firstly, Japan is late in the field and there are hardly any areas to which the Japanese can emigrate to any large extent. Japan finds itself to-day in the same position, in which Germany found itself when the German Empire was formed in 1871. The Japanese are not a colonising race.<sup>1</sup> Even in Manchuria, only a small number of the Japanese have moved as compared with a large number of the Chinese. The Japanese Government is now helping emigrants to settle in Brazil, but it remains to be seen how far that will reduce the pressure at home.

### OTHER SOLUTIONS TO THE POPULATION PROBLEM

We have already indicated that there do not seem to be any great prospects of Japan being able to solve her population problem by further industrialization. At present the foreign trade of Japan depends mainly on two commodities, cotton goods and raw silk, and in order that she may be able to pay for the imports of foodstuffs, she will have to increase the exports of these products to a considerable extent, and as we shall see later, in greater detail, this does not seem possible. It has been suggested by Inouye<sup>2</sup> that Japan should engage in the carrying trade of the world, in order to be able to pay for her excess of imports, but the prospects of this do not appear to be bright.

<sup>1</sup> Osborne : *op. cit.*, pp. 176-7.

<sup>2</sup> Inouye : *The Problems of the Japanese Exchange*, p. 209.

## JAPAN IN 1850

Though Japan was in the past a great maritime nation, its Government had adopted a policy of seclusion for reasons which need not be discussed here, and therefore, till the middle of the nineteenth century, she was a "hermit nation" hardly known to the western world. For a period of more than two hundred years, all foreigners save the Dutch and the Chinese were excluded from the Island Empire, and the Japanese citizens were forbidden to leave the country under penalty of death. It was the Americans who made Japan realize the need of giving up this policy. Commodore Perry attacked the Islands with a small navy and the natives were hardly able to resist the attack<sup>1</sup>. Even then they resisted any foreign intercourse; when the Americans came out into the streets, the Japanese shops and stores closed their doors under orders of the Government. But at the point of the bayonet Japan was made to sign treaties of commerce. On March 31, 1854 she signed a treaty with the United States which was speedily followed by similar treaties with Great Britain, Russia and Holland. But foreigners did not actually secure the right to trade in Japan till 1858. It was in that year that she opened the three ports of Yokohama, Nagasaki and Hakodate and a little later Kobe, Niigata and Osaka, to foreign commerce, and thereby ushered in the forces of western industrialism.

<sup>1</sup> Cf. The New Japan Year Book, 1928, p. 359.

### REMARKABLE DEVELOPMENT

As we shall presently see in some detail, the Japanese islands were under a feudal government till 1868. It was in that year that the monarchy was restored ; and with the restoration began a series of political, social and economic reforms, which in scope and rapidity of movement are unparalleled in history.<sup>1</sup> Within the span of a single generation, Japan emerged from a secluded feudal state without any ships, railroads, financial institutions and other accessories of modern economic life, with negligible commerce, with handicraft industries, and with primitive agriculture, and has become a highly developed nation with extensive trade relations throughout the world. She is to-day a world power ; she occupies a key position in the sphere of international relationships as one of the five great powers.

### ABOLITION OF FEUDALISM

Till 1868, the Japanese islands were ruled by feudal lords, and as in other countries, feudalism in Japan was not conducive to the development of trade and industry or to the economic welfare of the people. It seems that by the middle of the nineteenth century feudalism had outlived its usefulness. The condition of the peasantry was not satisfactory; there were as many as five rice riots during 1839 and 1846. The feudal lords were also in difficulty; they had to resort to loans and their power was weakened. Thus the internal situation

<sup>1</sup> Moulton, *op. cit.*, pp. 97-99.

in Japan by this time was such that even without any foreign attack, feudalism would have disappeared and monarchy been restored.<sup>1</sup> The foreign attack however hastened this development. The inability of the feudal lords to resist the attack of Perry and his crew had shown the Japanese their weakness. It also meant a loss of prestige to the feudal lords. The Japanese were much impressed by the great transformation that had then come over the western world on account of the industrial revolution. They knew how the western powers had treated India and China. They realized that to the independence of their country a term was set, and hence it became the resolve of the thinking Japanese to master the western civilization before it mastered them.<sup>2</sup> The feudal lords were wise enough to see that they by themselves could do little to strengthen their country, and thereby free it of any possibility of being attacked, and it is interesting to note that some of them even presented memorials to the throne for abolishing feudalism, and taking over the reins of the government fully in the hands of the Crown. The abolition of feudalism was the most radical step ever taken in the history of Japan ; it struck at the root of the old established things, and as we shall see later cleared the way for future progress

### BEGINNINGS OF MODERNIZATION

As soon as the Imperial regime was restored, many reforms and changes were successfully undertaken in

<sup>1</sup> Cf. Sansom, *Japan*, pp 460 and 510-16

<sup>2</sup> Cf. Eldridge : *Trading with Asia*, pp. 15-16.

the political, social and economic spheres. The whole course of the restoration was deeply influenced by foreign affairs—a desire to reorganize the life of the country so as to strengthen it to withstand the commercial and military activities of the foreigners, to avoid, in short, the fate of India and China.<sup>1</sup> The old feudal lords were pensioned off; they were given Government bonds in proportion to their feudal income. This had a good effect on the industrial development of the country. There was a sudden increase in the capital available for investment in industry, and the possession of this capital induced some of the old feudal lords to engage in industrial and commercial enterprises. The Emperor took over the political powers of the old feudal lords. A modern type of Government was instituted, and the powers of government were vested in the Executive, the Legislature and the Judiciary. On February 11, 1889 the new Emperor promulgated a constitution defining his powers, regulating the rights of the subjects and creating a representative government. On April 1, of the same year, local self government was established. Political liberty and equality of all people were recognized by law, and thus began the era of democracy in Japan. The adoption of those political reforms greatly facilitated the economic development of the country. The army was remodelled on modern lines; in fact, in every walk of life, reforms of a far reaching character were instituted, and it is to these reforms and to the

<sup>1</sup> Cf. Tsurumi : *Present Day Japan*, p. 13.

Japanese leaders,<sup>1</sup> who were responsible for them that the credit, for what Japan has been able to achieve in a short time, is due.

### CAUSES OF THE GREAT DEVELOPMENT OF JAPAN

The two main factors which have contributed to the economic development of Japan are (1) the social psychology and the characteristics of the people, and (2) the national economic and social policy adopted by the Government. In the following pages, we shall briefly see how these two factors have promoted the progress of Japan. Thirdly, we should note that the operation of these two factors, and the attainment of the goal was facilitated and hastened by excellent opportunities that Japan had during three successive wars.

#### I. *Social Psychology and Characteristics*

In studying the economic life and progress of a people, we must take into account their social conditions and psychology. As Professor Tawney<sup>2</sup> has remarked the foundations of modern industrialism are both material and psychological. Its success partly depends on the command of necessary natural resources, partly on scientific knowledge, partly on the existence of habits and institutions, which enable that knowledge to be applied and the resources to be exploited. Its success depends not so much on the machine, but the brains which use that machine, and the institutional framework which enables it to be

<sup>1</sup> Cf. Ware : *Business and Politics in the Far East*, p. 140

<sup>2</sup> Tawney : *Land and Labour in China*, p. 129.

used.<sup>°</sup> The success of Japan would not have been so great and rapid, but for the special consciousness, spirit of patriotism and solidarity of the people.<sup>1</sup> They have found it possible to develop such an intensive feeling of nationalism and identity of interests, partly on account of their old policy of seclusion and partly on account of the small size of their country. Their old religion of loyalty evolved through a long period of history, became the new national sentiment of trust and duty.<sup>2</sup> In Japan there is not as much stratification of society into classes as in the west, or castes or creeds as in our own country. Indeed without the capacity for imagining a common national ideal, and for sacrificing every personal consideration in its service, the immense practical achievements of the Japanese industry during the last sixty five years would never have been possible.<sup>3</sup> They move as a unit in com-

<sup>1</sup> Cf. "It was impossible during our stay in Japan to escape the conviction that we were witnessing in action a people with a driving power inspired with a unity of national thought and sentiment which has enabled them to surmount many crises as few other people could have done, and in addition possessing in unstinted measure imagination and courage with possibly more than a touch of the gambler's belief in his luck." Report of the Cotton Mission that accompanied the British Economic Mission to the Far East, p. 9

<sup>2</sup> Beam. *Japan an Interpretation*, p. 329

<sup>3</sup> "Japan could never have achieved her present economic position without that group instinct which is generated by the family system and which is still characteristic of Japan. The individual is a small entity; he will put his firm first, and the firm puts itself in the background but works for the national welfare. The Emperor is still the personification of the Deity and every Japanese claims to be part and parcel of his family, the whole state is one trust." Pearce: *Cotton Industry in Japan and China*, p. 141.

merce, industry and politics, something singularly absent in our country.

Besides this solidarity, there is another trait in the Japanese character, which has also helped their progress very much and that is their response to new ideas and methods. In their earliest history they imbibed culture and art from China. After they came into contact with the west, they rapidly mastered all the achievements of modern science and technique. At first Japan slavishly imitated all western ideas, but during the last forty years, she has developed so much that we can no longer regard her as a mere imitator. Later, we shall have occasion to see how wonderfully the Japanese have organized their cotton textile industry, to note their invention of the Toyoda loom and other achievements. In some cases we find that on account of the short period during which Japan has taken to western industrial methods, she has not developed fully, but as compared with what she has achieved these appear to be minor matters. Not only have the Japanese achieved much in the past, but they also hope to do much more in the future. They are training the new generation and are making them realize their responsibilities in a graphic way. Through one of their national songs they are taught for instance, that their grandfathers and fathers have made their city Tokyo the best in the orient, and that it is up to them to make it the best in the world.<sup>1</sup>

<sup>1</sup> See Report of the Cotton Mission that accompanied the British Economic Mission to the Far East, 1930-31, p 14

II *National Economic and Social Policy of the Japanese Government.*

## THE ROLE OF THE STATE IN ECONOMIC ACTIVITIES

We shall now study the great part that the state has played in the economic development of Japan. Probably no government in any part of the world excluding Russia and perhaps pre-war Germany, has given and gives so much attention to the promotion, encouragement and protection of national industries as does the Government of Japan. This role of the state in economic life appears quite logical in a state just emerging from the feudal stage. Laissez-faire and individualistic philosophy of the west have found little support in Japan. In fact, when Japan emerged from her state of seclusion, laissez-faire and individualism were waning into the background, at least on the Continent of Europe and America, if not in England, and the Japanese Government by means of a policy of enlightened autocracy, ushered in the era of modern industrialism in the country. The success of this policy was largely due to the personal character of the Emperor and his advisers. As an English historian says the Mikado Mutsuhite who came to the throne in 1868, and who adopted for his reign the title Meiji (i. e. Enlightened) was austere, upright, calm, judicious, farsighted and benevolent ; he was what Plato had sighed for and Voltaire vainly sought—a philosopher on the throne.<sup>1</sup> When he died in 1912 he had lived to see his kingdom converted into an empire, and the Japanese one of the most powerful nations of the world.

<sup>1</sup> Porter : *Japan : The Rise of a Modern Power*, p 108.

## THE NEED FOR GOVERNMENT INTERFERENCE

Situated as Japan then was it was necessary that the State should play an active part in the industrial development of the country. When the Japanese ports were opened to foreign trade, foreign goods, cheaply produced with the help of machinery in the west, began to pour in ; this meant a great loss to the old cottage industries in the country. The same thing happened also in China and in our country, but the difference was that the Government of Japan realized its obligations in the matter, and started new industries and reorganized the old ones, so as to assist the artisans employed in old industries whose existence was threatened on account of foreign competition. The Japanese people, if they were left to themselves, would not have been able to save themselves from foreign competition, on account of the inertia brought about by a long reign of feudalism and seclusion from foreign intercourse. This was one of the most important reasons why it was necessary for the Government of Japan to take an active part in the economic development of the country.

## INDUSTRIALIZATION AND NATIONAL DEFENCE

Secondly, as we had occasion to point out earlier, Japan adopted Western industrialism as a measure of national defence, to strengthen and save itself from the onslaught of western countries. It was therefore quite natural that the State should play a prominent part in matters industrial. The state had to see that the old

industries like silk were reorganized and placed on a sound footing. It was only by encouraging the development of such industries, and thereby stimulating the export trade, that the Japanese Government could hope to pay for foreign armaments, machinery and other necessities of modern economic life, which it has to import on a large scale, to reorganize the whole economic and social life of the people. It was realized that the profits from minor arts and crafts, for which she was celebrated so long, would not be sufficient to support modern navies and armies, and that only by manufacturing staple commodities on a large scale, could she hope to become a first class power. Hence the need for establishing large scale industries, and the Government's initiative regarding the same.

#### SCARCITY OF CAPITAL

Thirdly, there was a scarcity of capital in Japan, and the Government had to see that the progress of the new industries did not suffer on that account. As is well known modern industrialism requires a large capital. We have seen before that at the time of the Meiji Restoration, the common people as well as some of the feudal lords were in a distressed condition, and hence without the direct intervention of the Government, it was not possible to obtain the large amount of capital needed for new industries. The resources placed at the disposal of the feudal lords, who were pensioned off were used by them for this purpose. Japan also imported a certain amount of capital from abroad.

## ABSENCE OF INDUSTRIAL BACKGROUND

But the fourth and the most important factor that necessitated active government interference was the absence of any industrial background in the country. As Orchard<sup>1</sup> has said westernization demanded initiative and originality above everything else, as it involved a complete rebuilding of the economic organisation of the country. As a result of the national policy of seclusion that had prevailed for generations, the Japanese people were at the beginning of the Meiji era, wholly inexperienced in modern trade and industry. In feudal Japan industries were organised on a small scale. The economic life was more or less self-sufficient and whatever trade existed was of small dimensions. Again it was handled by people of a lower social strata, since the higher classes entertained a feeling of contempt for trade, and regarded commerce as the least honourable occupation.<sup>2</sup>

Besides, the Japanese people had no technical training and did not know how to employ western machinery and other accessories of modern production. This was quite natural since they had never had the opportunities to learn the same. Again, even modern industries require a certain amount of skill on the part of the labour force which is called upon to handle the machinery. Japan had no such skilled labour force.

## TARIFF POLICY

It is interesting as well as instructive to note that Japan did not, and in fact could not employ

<sup>1</sup> Orchard : op cit., p 77

<sup>2</sup> Potter . *Japan, the New World Power*, p. 54.

protective tariffs and foster the development of new industries, till almost the end of the nineteenth century. In the treaties of commerce and navigation concluded with the Western Powers, the import duties were limited to a low rate, and tariff autonomy was not secured until the general revision of the treaties in 1899—an event largely brought about by her remarkable victory over China in the Sino-Japanese war of 1894-95.<sup>1</sup> During the interval, the Japanese Government promoted the economic development of the country, in other important directions as will be seen later. It was fortunate that the Japanese Government were not at this time in a position to impose a protective tariff, since the prevailing conditions were hardly such as could enable the country to take its full advantage.<sup>2</sup> It was only later that the Japanese Government adopted a policy of protection, with a view to stimulate and protect the production of practically every commodity that might conceivably be manufactured within the country.<sup>3</sup> In many lines of industry, this policy has been justified by the development of enterprises not formerly carried on in Japan. In other cases however, the result has not been satisfactory, and many Japanese writers<sup>4</sup>

<sup>1</sup> See "The Japan Empire," published by the Japanese Times Tokyo, p. 141.

<sup>2</sup> Viscount Okuma, one of the greatest Japanese leaders responsible for reforms said, for instance, "Japan is still in great need of men of trained intellect and practical experience, not that she is in need of protection." Quoted in Chu : *The Tariff Problem of China*, p. 136

<sup>3</sup> Moulton, op. cit., p. 477

<sup>4</sup> e. g. Uyehara : op. cit., p. 320.

feel that the time has come to overhaul this policy in important respects. In our country we find some people attributing the success of Japan to the protectionist policy of its government. What has been said above will show that this is not a correct notion. For the first thirty years of her industrial career, Japan could not and did not employ protectionist tariffs, and even later, the adoption of that policy proved only of partial advantage. If Japan had not developed technical education, national shipping, sound banking institutions and other accessories of modern industrialism, to be examined in greater detail later, and if her social psychology and organization were not what they have been, protective tariffs alone would not have helped Japan.

#### EDUCATIONAL REFORM AND TECHNICAL SKILL

We have noted before that there was no proper industrial background in Japan: there were neither great entrepreneurs, skilled engineers nor efficient labour. It was necessary to remove these handicaps before Japan could hope to make progress in industries. The keynote of the new policy that was adopted for this purpose is to be found in the two famous utterances of the Emperor when he assumed control of the Government; (1) that knowledge would be sought for throughout the world so that the "welfare of the Empire may be promoted," and (2) that the "Counsel of able men would be wisely utilized."<sup>1</sup> These promises have been faithfully kept. With a

<sup>1</sup> See Porter. *Japan. The New World Power*, p. 1.

view to increasing the general efficiency of the people, the educational system of the country was reformed, and in the year 1872 primary education was made compulsory for both the sexes.<sup>1</sup> The Imperial oath of 1869 declared that "henceforth education shall be so diffused that there may not be a village with an ignorant family nor a family with an ignorant member."<sup>2</sup> This ideal has been to a large extent achieved ;<sup>3</sup> the standard of literacy in Japan is thus very high,<sup>4</sup> and this has considerably contributed to the efficiency of the people.

With a view to removing the deficiency in technical skill and business training, the Japanese Government freely imported foreign experts. The Japanese learnt from them, and when they themselves were able to do the work dispensed with their services. They also established technical and commercial schools and colleges in their own country. For this purpose also Japan imported for the first few years foreign experts to train the people in the theory of modern industrialism. The people trained in these schools and colleges obtained their practical training sometimes abroad, but mostly in the new factories established in the country.

<sup>1</sup> Vide Gubbins : *op. cit.*, p. 293

<sup>2</sup> Allen : *op. cit.*, p. 77.

<sup>3</sup> Cf. "The program of the Restoration throughout has been one of education in every respect. Today it is Japan's proud boast that more than 99% of Japanese children of school going age are actually receiving instruction. For the six years of elementary education the Curriculum has been carefully planned by the Ministry of Education with the aim of national ideals." Ware : *op. cit.*, p. 194.

<sup>4</sup> The attendance at School of children of school going age was 99.77 per cent. in 1933.

The Japanese Government also sent more promising students to western countries, notably to England, Germany and the U. S. A.—to learn first hand western industrial and business methods. These students had excellent opportunities of receiving their practical training in foreign manufacturing concerns—facilities which are now unfortunately denied to Asiatics.<sup>1</sup> When these students returned they were employed in national factories; they constantly kept themselves in touch with the progress of technical and business ideas abroad, and tried to utilise them to the best advantage in their country. Japan's method in this respect is to watch new industrial improvements, inventions and processes and to adopt them at home, after buying out foreign patents if necessary.<sup>2</sup> Again excellent laboratories were established for the prosecution of industrial research, and funds for this purpose were freely supplied by the Government and private organizations. It was in these ways that Japan overcame one of her fundamental handicaps viz., the absence of industrial background and lack of technical skill.

#### DEVELOPMENT OF THE TRANSPORT SYSTEM

At the time of the Restoration, the transportation facilities in Japan were far from satisfactory, but it was realised that the existence of a sound transport system is essential for the success of any scheme of economic development of a country. The Government of Japan constructed modern railway, telegraph

<sup>1</sup> See Chatterton : *Industrial Evolution in India*, p 365.

<sup>2</sup> See *Economic Journal*, 1927, p 54.

and telephone systems. The first railway was begun in 1870 and was completed in May 1872 ; by 1894, 2,117 miles had been constructed and the main features of the present system laid on a sound and economical basis

As we shall see later the Japanese Government also subsidised steamship lines and brought about the development of a national mercantile marine.

#### GOVERNMENT ASSISTANCE IN OTHER DIRECTIONS

Not only did the Japanese Government take care to develop railways and steamship lines to facilitate the growth of trade and industry, but it also assisted economic progress in other directions.<sup>1</sup> Many commercial institutions which have been created spontaneously by the business community in western countries were created by the State in Japan. The Chambers of Commerce were brought into being by law, and they were asked to safeguard and promote their respective interests. Commercial Museums were established at different centres in the country to acquaint the domestic producers with the requirements of foreign markets and products produced by their competitors. They were also established in foreign countries—in Calcutta and Bombay for instance—to acquaint the foreign consumers with the Japanese products, and thereby develop their demand for these goods. Again the Government arranged to test the quality of the goods before they were exported, and these tests were to be carried out by the guild or chamber interested in the

<sup>1</sup> Cf. Allen, *Modern Japan and Its Problems*, p. 102.

production of that commodity. By these means care was taken that no goods of bad quality were exported. Again the Japanese Government investigated carefully the different foreign markets with a view to study their requirements. The Government also appointed at different centres Trade Commissioners to safeguard and promote the interests of foreign trade and traders of Japan.

#### DEVELOPMENT OF BANKING

The Government of Japan facilitated the growth of trade and industry in the country in another direction also. It realized very early that the success of western commerce and industry depended among other things on satisfactory financial and banking facilities. It therefore carefully studied western banking systems; deputed some of the Japanese businessmen to study them on the spot and started different banks. At first they engaged the services of foreign banking experts. The first bank in the modern sense of the term was established in Japan in 1875. The system of banking adopted at this time was on the American pattern—the Decentralized System. Later however, the Japanese Government adopted the English system—a centralized system with the Bank of Japan as the Central Bank in the country. Situated as Japan then was the Government had to take the initiative in establishing sound banks, and hence official institutions have played and even still play a predominant role in the financing of national trade and industry; but later, there also came into existence many private financial institutions,

though they have been able to play so far, only a minor part in the finance of trade and industry. Not only has the Government of Japan provided financial facilities to big industries and commerce, it has also given financial help to merchants and industrialists of small means by the formation of what are called the "Mujin" loan companies. The method of operation of these companies is interesting. A number of subscribers form themselves into an association and decide to meet at regular stipulated periods say monthly, and each contribute a definite amount of money. These contributions are distributed as loans to one or more members of the association, by a method of secret bidding and according to the needs of the borrowers. Once a member gets a loan he is not entitled to bid again till the needs of the rest of the members have been satisfied. This ensures that all the members get the loan at one or the other meeting of the association.<sup>1</sup>

#### THE INDUSTRIAL BANK OF JAPAN

For the purposes of facilitating the floating of new industrial concerns and the provision of cheap and adequate credit facilities to them the Government of Japan organized in March 1902, the Industrial Bank of Japan.<sup>2</sup> The business carried on by the Bank is

- (1) to make loans on pledges of national and local loan bonds and companies' debentures and shares ;

<sup>1</sup> For details see Moulton, *Japan*, pp. 189-91.

<sup>2</sup> Cf. "Japanese Banking," U. S. Department of Commerce, Trade Promotion Series, No. 116,

- (2) to subscribe for, or take up national and local loan bonds and companies' debentures ;
- (3) to receive deposits of money and accept the custody of articles of value ;
- (4) to engage in trust business ;
- (5) to discount bills ;
- (6) to make loans on security of a foundation created as prescribed by law, and
- (7) to make call loans or loans for a fixed term on the security of sites and buildings, provided however, that the total amount of such loans shall not exceed one half the amount of the paid-up capital of the Bank.

The Bank is also authorized to issue its own debentures to an amount not exceeding ten times its paid-up capital.<sup>1</sup> The organization and the sound working of this Bank have greatly helped national industries.

#### THE YOKOHAMA SPECIE BANK

It was realized at a very early date in Japan that the extent of a nation's participation in foreign trade depends upon the facilities provided by its banking system. Up to 1880 practically all the foreign exchange transactions were carried on by foreign banks and merchants as the Japanese were inexperienced, nor had they the necessary institutions to take any important part in the finance of foreign trade. Hence to provide financial facilities for foreign trade to Japanese merchants, and thereby to regu-

<sup>1</sup> For further details see Financial and Econ. Annual of Japan for 1911, pp 138-39.

late on healthy lines the growth and direction of the foreign trade of the country, the Yokohama Specie Bank was organized in 1880. It was at first supported in various ways by the Government, but in 1889 this support was withdrawn, and the Bank of Japan was asked to offer special concessions to that institution. The business carried on by the bank consists of (1) foreign exchange, (2) inland exchange, (3) loans to merchants, (4) deposits of money and custody of articles of value, (5) discount and collection of bills of exchange, promissory notes and other securities, and (6) exchange of coins, and other miscellaneous activities<sup>1</sup>. The Bank has done much for promoting the growth of the foreign trade of Japan. It was only after the establishment of the bank that the people of the country managed to secure a large and growing share of the business connected with the foreign trade of the country, and if we in India desire to have a large share in the financing and carrying on of our foreign trade we must have a national institution that will do that work.<sup>2</sup> This bank has a large number of branches at home and abroad, and through them it is able to provide cheap and adequate financial facilities to the import and export trade of the country. The existence of these facilities has enabled the Japanese to develop their trade in different parts of the world and compete successfully with other countries.

<sup>1</sup> Cf. The Report of the Indian Central Banking Enquiry Committee—Evidence Vol IV, Discussions with Foreign Experts, p. 751.

<sup>2</sup> Cf. Vinacke : *Problems of Industrial Development in China*, pp 93-95.

## THE BANK OF JAPAN AND THE CURRENCY REFORMS

When Japan started on its industrial career it had no sound currency system. During the last days of feudalism there was repeated debasement of the coinage of the country on account of the financial difficulties of the feudal lords.<sup>1</sup> Consequently the monetary system of the country was in a wholly unsatisfactory state ; some sixty odd coins of all sorts, sizes and shapes formed the circulating medium. Before Japan could do much progress in trade and industry, it was essential that the currency system of the country should be reformed. The Japanese Government could not at once adopt a gold standard but had to first bring the old system to a uniform basis. Ultimately Japan adopted the gold monometallic standard in 1897 ; this was made possible by the huge indemnity that China paid to Japan as a result of the Treaty of Shimonoseki which followed the Sino-Japanese war of 1894-95. But for this payment, it would have taken some years more for Japan to procure the gold resources for the establishment of the gold standard. The adoption of the gold standard at first meant a certain amount of hardship to Japan's trade and industry, but ultimately it did immense good. The working of the gold standard and the function of note issue was entrusted to the Bank of Japan which was established in 1882 as the Central Bank, and which has done much for the promotion of a sound banking development in the country.

<sup>1</sup> Cf. U. S. Department of Commerce : "The Currency System of Japan."

## THE CREATION OF OTHER FINANCIAL INSTITUTIONS

Besides the establishment of these three banks, a number of other banks were established to help agriculture and the co-operative movement, directly by the State or by assisting private bankers. The growth of manufacturing industries and trade necessitated the development of many other financial institutions such as Stock Exchanges, Insurance Companies, Savings Banks, Underwriting Houses and so on. All these institutions helped the growth of capital resources in the country, and thereby contributed to the development of industry and trade.

## THE DEVELOPMENT OF NATIONAL SHIPPING

The development of national shipping—shipbuilding, navy and mercantile marine—has greatly helped the growth of the foreign trade of Japan. We are not here directly concerned with the growth of Japan's navy or her shipbuilding yards<sup>1</sup> but only with her mercantile marine. Behind the trade ambitions of the Japanese is the mercantile marine, which has always opened for them new world markets. On account of their geographical position they have been navigators from the earliest times, but due to their policy of seclusion the development of shipping was checked. With the restoration the desirability of establishing national shipping was recognized by the Government, and it encouraged the same by means of subsidies, the purchase of foreign ships and the establishment of shipbuilding yards to construct vessels. The

<sup>1</sup> See Moulton, *op. cit.*, pp. 79-86.

Navigation Law of 1896 granted general subsidies on certain conditions to all owners of steamers engaged in service. This law was meant for protecting the infant merchant marine from foreign competition, and for encouraging the shipbuilding industry at home. In 1909 "The Ocean Service Subvention Law" was passed for the same purpose. Orchard<sup>1</sup> tells us that in the 25 years period from 1902 to 1926, the Government paid out to Shipping Companies, in subsidies and bounties, 207 million yen in all, which nearly comes to forty-two per cent of their regular net earnings. Not only did the Government offer these subsidies, but it also guaranteed dividends to new shipping companies.<sup>2</sup> The Nippon Yusen Kaisha which is not only the largest shipping company in Japan but also one of the leading companies in the world was, for instance, guaranteed by the Government, an annual dividend of 8 per cent. Even as late as 1923-24, Government granted, in spite of the earthquake disaster and financial stringency, about 7 million Yen to the different shipping companies.<sup>3</sup> We are told that even now these companies are getting subsidies, but it is not possible to get exact figures.

As a result of such state encouragement and assistance, Japan has developed her mercantile marine to a wonderful extent. Prior to the Sino-Japanese War the Japanese ships, were only engaged in coastal

<sup>1</sup> Orchard · op. cit., p. 88

<sup>2</sup> Uyehara · op. cit., p. 239

<sup>3</sup> British Committee on Trade and Industry—Survey of Overseas Markets, p. 409.

trade ; the transportation to and from foreign countries being left almost entirely in the hands of foreign carriers ; only about ten per cent. of the foreign trade of the country was carried in Japanese bottoms. The proportion increased to 40 per cent. after the Russo-Japanese war, and just before the Great War it increased to 48 per cent.<sup>1</sup> Next to England and America, Japan is the largest shipowner in the world.<sup>2</sup> The Japanese have managed their merchant marine with consummate skill, wisdom and energy. They made large profits during the war, but they were wise enough not to waste them away in the form of high dividends ; they invested them partly in new tonnage and partly for creating a vast reserve fund. Obviously this policy had a beneficial effect on Japan's trade.

#### GRANT OF SUBSIDIES, BOUNTIES AND DIRECT GOVERNMENT MANAGEMENT OF NEW INDUSTRIES

We have so far examined how the Government of Japan created the background and other arrangements for facilitating the growth of industry and trade. It went further. It financed new industries by the grant of subsidies or bounties and cheap credit facilities directly or indirectly through the banks established under government auspices. In order to educate the people in technical and other matters, the Government had to establish and supervise various factories. Especially till 1883 the industries of Japan may be said to have been

<sup>1</sup> Cf. Financial and Economic Annual of Japan, 1915.

<sup>2</sup> Cf. for details "Indo-Japanese Trade Bulletin," Sept. 1932.

in the age of industrial infancy under state management. The Government thus owned and managed, for instance, railways, coal and iron mines, shipbuilding yards, textile factories including spinning and weaving mills of silk, cotton and wool, and factories for the manufacture of paper and glass. By 1884 when private enterprise had sufficiently developed, the Government began to transfer the industrial undertakings to private ownership and management.<sup>1</sup>

#### LARGE SCALE OPERATIONS

In connection with the early stage of the development of Japan's trade and industry there is one point to which attention should be drawn here, and that is the huge scale of operations with which they began their career. The Japanese perceived that if they were to succeed against foreign competition, they must not begin on a small scale and wait for business to grow. They at once proceeded to take advantage of the economies of large scale production. Their foreign competitors had the benefit of long experience and huge capital, as a result of which their overhead charges and cost of production per unit were small. If Japan were to compete with them successfully she must also reduce her overhead charges, and produce at low costs and for this large scale operations were necessary. Japan had however small capital resources, but by using what she had, by heavily taxing the people, and by borrowing if necessary, the desired result was achieved.

<sup>1</sup> International Labour Office—Industrial Labour in Japan, p. 16..

As a result of this national economic and social policy followed by the Government of Japan, we find that in the short space of sixty years the country has made remarkable progress. The first twenty-five years saw the creation of the institutions, public services and material equipment upon which the economic structure of a modern state rests, besides the beginning of modern industries under the aëgis of the Government. The next twenty years constituted the first period of great industrial growth. Stimulated by the experience gained from the west, by success in two wars and by the acquisition of colonies, the Japanese rapidly developed new industries modelled on those of Europe, the cotton industry in particular making a marked advance. It was during this period that the State engaged upon a policy of subsidy and protection for industries which were passing away from its direct control, and it was then that machine production began to supersede hand labour in the older industries which had survived from feudal times. Finally as we shall see below in greater detail, there came the Great War to complete Japan's transition to her present position of a great industrial country.

### III *The Three Wars and Economic Development.*

We have so far considered the two main factors that contributed to the rapid economic development of Japan—the social psychology and solidarity of the people, and the national economic policy of the State. We shall now proceed to the consideration of the third factor, viz., the excellent opportunities which the three

successive wars gave her—the Sino-Japanese War of 1894-5, the Russo-Japanese War of 1904-5 and the Great War of 1914-18. Coming as they did at an approximate interval of a decade they greatly helped Japan ; each succeeding war brought about a greater industrial expansion than its predecessor ; and the intervening years of peace were utilized to consolidate the advances made during the periods of war. As has been pointed out before, Japan began her industrialization as a weapon against possible aggression from a foreign nation, and we shall now see in greater detail how wars and the fear of wars have played an important part in bringing Japanese industry and trade to their present state of development. These wars have been so important in the economic development of the country, that Sun-Yat-Sen<sup>1</sup> has sarcastically remarked that Japanese militarists think that war is the most profitable national pursuit, and that their General Staff keeps on planning a war once in a decade.

#### THE WAR BETWEEN JAPAN AND CHINA (1894-95)

The war between Japan and China was fraught with momentous consequences both in the political and economic spheres. If Japan were to be defeated in this war then the western powers would have succeeded, just as they did in the case of India, in subduing and conquering both China and Japan.<sup>2</sup> We are not concerned so much with the causes as with the consequences of this war. Briefly speaking, Japan went to war with China for eliminating Chinese interference with

<sup>1</sup> Sun-Yat-Sen : *The International Development of China*, p. 233

<sup>2</sup> See Porter, *Japan, the Rise of a Modern Power*, p. 122.

Korea ; it was from one point of view a part of Japan's imperialistic policy to bring under control outlying regions for the purpose of expanding national trade and industry. Till then China had been regarded as a big country venerated for her ancient culture. The defeat of China by Japan at once shattered her prestige as much as it showed the strength to which Japan had developed herself, since the Restoration of 1868. The old Tokugawa Government of Japan had been forced to sign inequitable and harmful treaties of commerce, granting extraterritorial rights to the foreigners in Japan, and limiting the levy of customs duty to a low level of 5 per cent. The new Government as well as the awakened people of Japan were demanding for a number of years the revision of these inequitable treaties. However, it was not until 1894 that a revised treaty was signed in London, when it was seen that Japan's movement against China would be successful. The revision of the treaty by England was followed in due course by other countries. Hence the year 1894 marks a memorable stage in the rise of Japan to the position in the world which she has since attained. England further signed another treaty with Japan on January 30, 1902. By articles II and III it was in effect provided that neither Great Britain nor Japan should, in the event of a Far Eastern War, be obliged to fight single-handed against a combination of powers.<sup>1</sup> This treaty was an "epoch making event"; it greatly increased Japan's prestige as an ally of a

<sup>1</sup> See Uyehara *op. cit.*, p. 29.

"Great Power," and at the same time it safeguarded her from the aggression of other Powers.

#### HELP TO INDUSTRIAL PROGRESS

Not only did the war result in improving the prestige of Japan in international politics and commerce and in removing her restrictions, but it also stimulated her industrial progress.<sup>1</sup> The industry and trade of Japan made unprecedented progress by the aid of an indemnity of about 400 million Yen from China, and the introduction of foreign capital to the extent of about 100 million Yen. As we have already noted before, the indemnity enabled Japan to establish a sound gold currency system, so essential for the success of industrialism.

#### THE RUSSO-JAPANESE WAR (1904-05)

The war with China was followed a decade later by another Continental war with Russia. The causes of the war may be briefly mentioned here. Russia established herself in Manchuria and controlled the peninsula of Liaotung, thereby gaining influence in Korea. If we look to the position of Korea on the map, we shall find that it is in the interests of Japan that Korea should be strong and independent, or must not at least be under foreign influence. Japan did not wish that Korea should be dominated by Russia. Even if Japan did not have an imperialistic policy, and had not desired to gain the immense economic advantages which would accrue through the exploitation of Korea, the

<sup>1</sup> See Upehara, *op cit.*, p. 29

policy of self-defence in a world of predatory states would have compelled her to wage war with Russia.<sup>1</sup> As one of her diplomatic representatives said "We are fighting in Korea for our own future. I might also say for our independence. Once let Korea fall into the hands of a European power and our independence will be threatened."<sup>2</sup> The war broke out at last in 1904, and it was known as the greatest war in history, both financially and in the number of troops engaged until the European struggle of 1914-18. Though her fighting material was smaller than that of Russia, Japan succeeded because her subjects shrank from no personal sacrifice in the national cause. The moral effects of the Japanese victory in this war were even greater and more far reaching than those of the previous victory over China. Japan for the first time challenged the idea so firmly established in the previous century that Europe was destined to dominate Asia. After her war with Russia, Japan ranked as a first class power.

°  
IMMEDIATE EFFECTS OF THE WAR

Though the war with Russia increased the reputation and international prestige of Japan and created confidence in the Japanese regarding their own ability, still its immediate effects were very severe. Unlike the war with China, it drained the financial resources of the Japanese people, and Japan had received no war

<sup>1</sup> Hodgkin, *China in the Family of Nations*, p. 96.

<sup>2</sup> Morse, *The International Relation of the Chinese Empire*, Vol. III, p. 29.

indemnity. Like Great Britain, after Waterloo, she had immensely improved her status, but large sections of her population had not benefited by the struggle. Taxation was substantially increased on account of the enormous increase in military expenditure. Matters were further complicated by crop failures and discontent was rife among the populace. There were some riots and the authorities had even to declare martial law in Tokyo.

#### WAR AND ECONOMIC DEVELOPMENT

From the point of view of economic development the result of the war was remarkable. There was a boom in trade and industry which of course was, as usual, followed by panic and depression. Some of the industries were badly hit and financial help was afforded to such of them as were in difficulties. The Government as well as private firms imported foreign capital which amounted to 1,120 million Yen by 1906.<sup>1</sup> As a result of this assistance industry and trade recovered. During the next ten years till the Great War, there was a record economic development in Japan, only to be surpassed by the war and post war development. In the earlier years the economic development took the form of the creation of basic financial institutions and a well organized system of transportation. After the Russo-Japanese war, the more prominent tendency was to develop manufacturing industries and to seek overseas markets. There was also a great development of machinery and electric enterprises and ship-

<sup>1</sup> Uyehara, *op cit.*, p. 15.

ping accompanied by a great increase in foreign trade. We may also note that it was at this time that the Indo-Japanese Convention was signed, and Japan was granted most favoured nation treatment in the Indian market; she was thereby assured that the products of her growing industries would not be discriminated against in the huge Indian market. The importance of this assurance from the point of view of Japan's trade and industry need not be emphasized.

#### THE GREAT WAR 1914-18

The Great War of 1914-18 was of momentous importance to Japan. It benefited Japan from different points of view—financial, commercial and industrial. When the Emperor Meiji died in 1912 after a long reign of forty-four years, little did he foresee the great developments and prosperity that awaited his country, for the modernization and industrialization of which, he had so strenuously worked.

The immediate effect of the world war was a complete and universal suspension of all international transactions. It instantly paralyzed the London Market, the nerve centre of the trading activities of the world. It had its effects on Japan also; there was a grievous depression in Japan. Nobody knew what was in store. It placed obstacles in the way of Japanese commerce and business generally. There was danger to navigation, rise of marine insurance rates, reduction and difficulty of importation and exportation. But later, these obstacles were removed and Japan found herself in the position of a monopolist

supplier of a variety of goods. Since the western industrial nations were engaged in the war, and could not produce goods for supplying their usual markets, nor even produce enough to satisfy their own requirements, Japan was called upon to make up for these deficiencies. The Great War thus suddenly opened to Japan markets, which it would have taken years to acquire under normal conditions. Japan was, thus able to gain a foothold in the competitive markets of Asia, Africa and Australia. She also received large orders from allied nations for military supplies. The War thus gave Japan the commercial chances that she had long been dreaming of. Suddenly, all the markets in the Far East were magically opened to her. England, Germany and France, who for years had controlled the business of the Orient were removed from competition overnight. Japanese exports made an astonishing advance in a variety of new commodities in new markets.

#### HUGE PROFITS OF THE WAR PERIOD

On account of the prosperity in the export trade and the huge demand for their products the Japanese earned large profits during the war. At the end of the war Japan was a far richer and more prosperous country than she was in 1913. It must be said to their credit that on the whole the Japanese utilized their war time earnings in a satisfactory way, though the more conservative financiers would have wished that they had spent in a still better way.<sup>1</sup> With the

<sup>1</sup> cf. Inouye, *The Problems of the Japanese Exchange*. See also an article of Juichi Soyeda in the *Economic Journal*, 1916

proceeds of her favourable trade balance she reduced her national debt, and invested an appreciable amount in allied securities. She expanded her old industries and founded new ones. The woollen industry for example, which had been of small importance in pre-war days soon rose to a position of strength. A chemical industry and an artificial silk industry were established. The manufacture of porcelain and pottery which had formerly been conducted by traditional methods of organization was revolutionized after 1914, and large factories made their appearance for the manufacture of the same. To satisfy the demand for munitions of war, the iron and steel industry was extended, and Japan began to take a large share in the carrying trade of the world, next only to the United Kingdom and the U.S.A. The World War in short brought revolutionary changes to the economic life of Japan. It provided her with a real stimulus and a golden opportunity to equip her factories thoroughly with modern machinery, by disposing of old and inefficient ones and installing new ones instead. So far as technical skill was concerned, Japan made wonderful progress during the war. There was a considerable increase in her industrial capacity as compared with the position in pre-war years.<sup>1</sup> The aggregate horse power employed in industries doubled itself in the period bet-

<sup>1</sup> cf. "Survey of overseas markets" by the British Committee on Trade and Industry, pp. 415-24. The following table taken from "Trends in Japan's Trade and industries" (U S Department of Commerce-Trade Information Bulletin No 642, p. 5) indicates industrialization of Japan before and after the world war.

ween 1913 and 1918, together with a 50 per cent. increase in the number of factory workers. Before the war, the exports of Japan were largely those of her special products; now the position has changed.<sup>1</sup> Whereas the Sino-Japanese and Russo-Japanese wars largely promoted those branches of industry which supplied internal needs, the world war promoted the country's progress towards two other objectives, viz., the checking of imports of foreign manufacture, and the securing of markets abroad for home products. It can thus be seen that Japan strengthened her position, and consolidated the advantages she had gained during the war period.

### RECAPITULATION

We have now briefly studied the three main factors which have contributed to the wonderful development of Japan. The social solidarity of the people and the wonderful cohesion and co-operation of all interests for the general welfare was pointed out as the first factor responsible for the result.

Number of Factories in Japan

Year	Worked by power	Not worked by power	Total
1913	9,403	6,408	15,811
1920	30,128	16,022	46,150

<sup>1</sup> Cf. Yamasaki and Ogawa, *The Effect of the World War upon the Commerce and Industry of Japan*, p. 339.

The second factor that we pointed out as contributing to the growth of Japan was the national policy of its government. If we compare the economic history of Japan and India we find that in 1904, on the eve of the Russo-Japanese war, India and Japan were in nearly the same position in respect to the development of modern trade and industry. On the eve of the Great War, and still more after the War, we find that Japan has left India far behind. The difference is due to the fact that while the Government of Japan as well as the Japanese people took steps to foster and promote the industrial progress of their country by all the means at their command, we in India failed to do so. The difference in the position is mainly due to the difference in the policies of the two Governments. We have already seen how in a number of ways the Government of Japan has protected and encouraged national trade and industry. Though this is true, it would however be a mistake to conclude, as is sometimes suggested, that the entire fabric of Japanese industrial structure which has been built upon the foundation of grants and subsidies from the State would collapse without them.<sup>1</sup>

Thirdly, we pointed out that the three great wars which occurred after Japan entered her modern industrial career have greatly accelerated the pace of her economic development. This was especially the case with the Great War. The war offered Japan excellent opportunities to improve her industrial posi-

<sup>1</sup> See Department of Overseas Trade, London, Report on Japan, 1933, p. 29

tion, and she has taken full advantage of them. The war served to bring home to the Japanese manufacturers the necessity of making their business more cosmopolitan in its scope and of producing goods better adapted to foreign requirements. This brought about an appreciable change in the nature and the quality of the Japanese goods exported abroad.

As a result of the operation of these factors, great industrial progress has been achieved, and Japan is now regarded as a formidable competitor in the international markets, challenging the supremacy of the older industrialized countries. We shall now proceed to review briefly the post-war economic development of Japan.

### POST-WAR ECONOMIC DEVELOPMENT

As soon as the war was over economic confusion reigned supreme all over the world. The great expansion of trade and industry consequent on the unusual demand during war time could not be maintained once the military operations had come to an end. Japan was particularly hit hard, as was bound to be the case. After the Armistice, the European countries gradually took to their usual industrial and commercial pursuits, with a view to recapturing their pre-war trade, and Japan had therefore to face increased competition and in the process she lost an appreciable amount of her trade. Exports began to fall off in February 1919, and the balance of trade was adverse from the beginning of the year. Shipping was also badly

affected; it is essentially an industry which is subjected to most violent fluctuations between prosperity and depression, as the flow of orders to the industry is almost entirely governed by the operation of the trade cycle.<sup>1</sup> Prices began to fall but this panicky feeling gradually passed away in the second half of the year and there were again boom conditions. However this boom was only shortlived and came to a sudden end in the middle of March, 1920.<sup>2</sup> It began with a panic on the share market; this was beneficial inasmuch as it wiped out whatever amount of capital was "watered" during the period of war, because this was clogging the wheels of industry and trade. There was a congestion of goods which were produced in anticipation of the demand, which ceased after the armistice. This congestion was reduced by limiting imports and by reducing the hours of work. Consequently there was gradually an upper movement of prices and the depression disappeared. This process of purging was, however, not carried as far in Japan as in England, and it created troubles for her later on. There was much expansion of currency during the war, but it was not reduced now to a normal level after the war; if anything there was a slight increase; it had its effect on the movement of wholesale prices in Japan as can be seen from the following table.<sup>3</sup>

<sup>1</sup> See article of Sanders in *Statistical Journal*, 1924,, p. 226.

<sup>2</sup> Yamasaki and Ogaya, *op. cit.*, p. 148.

<sup>3</sup> Data obtained from Moulton, *Japan*, pp. 564-5.

At the end of the year	Note issue in million Yen approx.	Index of wholesale prices.	Index of wholesale prices in U S A.	Index of wholesale prices in G. Britain.	Index of wholesale prices in India (July 1914-100)
1913	426	100	100	100	
1918	1,145	192.6	188.1	226	178
1919	1,555	235.8	198.6	242	196
1920	1,429	259.4	221.2	295	201
1921	1,547	200.4	139.8	182	178
1922	1,588	195.8	138.5	154	176

Many critics<sup>1</sup> have blamed the Japanese Government for not reducing the note issue and thus bringing the Japanese price level into accord with the world level of prices, by a process of deflation, if necessary. Such a policy would have however meant a depression for her trade and industry, as it happened in England for instance, and the Government of Japan did not want such a situation. On the contrary it went on with its traditional programme of fostering industrial expansion by means of bounties and subsidies, supply of cheap credit directly or through other financial institutions, thereby assisting trade and industry, to get out of the post-war slump.

### THE GREAT EARTHQUAKE

Hardly had Japan emerged out of the post-war depression when, there came the Great Earthquake on the 1st of September, 1923. It was a terrible blow to Japan involving a heavy loss both of men and money.

<sup>1</sup> See for instance an article by G. C. Allen on "The last decade in Japan," published in "Economic History" (Supplement of *Economic Journal*), Vol. II, No. 8, January, 1933.

We can easily imagine the loss from our recent experience in Bihar and Quetta. Official Statistics put the total number of dead and injured at 156,693, but the actual number must have been much larger.<sup>1</sup> The generally accepted estimate of the loss in property was 550 million sterling. Tokyo was completely destroyed. Though the loss was great and the reconstruction meant heavy imports, and the consequent wiping out of Japan's huge balance, accumulated abroad, during the war time prosperity, the great disaster did not weaken the fundamental strength of her economic organization. Osaka which is the main centre of Japanese industry was not touched by the earthquake or the great fire that followed it; it only affected the distributing and commercial centres of Yokohama and Tokyo. The Cotton Textile Industry, which has come to be the principal manufacturing industry of the country, was largely outside the earthquake zone and suffered but little.<sup>2</sup> The money market was of course affected by various rumours then floated regarding the earthquake disaster and its effects on the prospects of Japan's industry and trade. The principal offices of many banks in Tokyo were burnt down, and there had to be a banking moratorium for nearly a month. The Bank of Japan however under the guarantee of the Government of Japan came to the help of these banks and was able to weather the storm successfully.<sup>3</sup>

<sup>1</sup> See Young, *Japan under Taisho Tenno*, (1912-26).

<sup>2</sup> See Eldridge, *Japan after the Earthquake*.

<sup>3</sup> Financial and Economic Annual of Japan, 1924.

## EARTHQUAKE AND ECONOMIC DEVELOPMENT

Strange as it may seem the earthquake gave a stimulus to trade and industry, as there had to be larger production and imports for the purposes of reconstructing the devastated areas. To facilitate imports, the Government took emergency steps to remit and reduce import duties on the necessities of life and the materials of engineering and building works. Hence there were large imports of foreign goods, but Japan could not maintain her volume of exports partly on account of domestic difficulties, and partly on account of the external circumstances such as the boycott of Japanese goods in China. There was, therefore, a heavy adverse balance of trade and to pay for it Japan had to draw on her foreign balances accumulated during the war time.

The reconstruction programme also stimulated different industrial activities and increased the employment available to labour. The Government helped the industries by providing easy credit facilities and other financial assistance. The Government met this extra expenditure for reconstruction partly by drawing upon foreign balances, increased taxation and borrowing and partly by inflating the note issue. Prices rose sharply in 1924 and 1925, and there was a boom in most branches of industry. There was a rapid growth of certain new industries, particularly the chemical manufacturing and public utility enterprises, and in the carrying out of extensive public works by both national and local governments<sup>1</sup>

<sup>1</sup> See Moulton, *Japan*, p. 305.

## FINANCIAL CRISIS OF 1927

The next important event to be noted in a study of the post-war economic development of Japan is the severe financial crisis of 1927. As we have noted before there was a great boom in Japan during the Great War. The prices had risen to very high levels and there was a great expansion of trade and industry. When the war came to an end normal conditions were restored ; there was not, however, a proper adjustment of trade and industry to new conditions.<sup>1</sup> The adjustment was postponed by the policy of the Government and the industrialists concerned—a policy trying to keep prices high by means of limitations of production, tariff revision and government relief measures. As we have noted before there was during the war a considerable expansion of note issue, but no serious attempt was made to reduce the same during the post-war period ; if anything it was increased as can be seen from the table below.

Year.	Note issue in Million Yen	Price Level.
1913	426	100
1918	1,145	192 6
1919	1,555	235 8
1920	1,439	259 4
1921	1,547	200 4
1922	1,588	195 8
1923	1,704	199 2
1924	1,662	206 5
1925	1,632	201 7
1926	1,570	178 8
1927	1 682	169 8

<sup>1</sup> For details see "Present Day Japan"—Annual English Supplement of the *Ashahi Tokyo*, 1928, p. 132 and article by G C Allen on "The Last Decade in Japan". *Economic History* (Supplement of *Economic Journal*), Vol. II, No. 8, January, 1933.

Besides this many advances were made to industry and trade directly by the Government or by the banking institutions under guarantee by Government and many of these loans proved bad debts. When these things came to light there was naturally a panic in the money market. Another factor that contributed to the crisis was the slump in the export trade, and therefore in the industries producing the export commodities. In 1925, England restored the gold standard, and influenced by that fact the Japanese Government also thought of doing the same. With this end in view, it began to balance its budget by reducing its expenditure and increasing taxation. This, however, led to an appreciation of the Yen which meant a check to Japan's export trade. It was at this time that it was disclosed that the position of many national banks was unsound inasmuch as many of their debtors were in difficulties. There was therefore a banking panic, and the Government had to declare a banking moratorium of three weeks from April 22 to May 12. In the meanwhile, the Government did its best to face the crisis by helping the banks in distress through the agency of the Bank of Japan. To make the confusion worse there was at this stage a change in the Government, and the new Government that came into office gave up the old policy of restoring the gold standard by a process of deflation, economy and balanced budgets. It adopted various measures to ease the financial difficulties and gradually the crisis passed away.

## EVENTS LEADING TO THE ABANDONMENT OF THE GOLD STANDARD IN DECEMBER 1931

The Financial crisis of 1927 involved to some extent the expensive readjustment of industries to the new price conditions, but it did not check the financial policy of the Government. The policy of the previous Government to check expenditure and balance the budgets had brought about the last crisis as we have seen before. The new Government, therefore, did not proceed with that policy; it continued the old policy of subsidies and bounties, at a rate much beyond what the national finances permitted and resorted to a policy of inflation as before. But the incoming of the Minseito Government with Junnosuke Inouye as the Finance Minister in the early part of 1929 meant a reversion to the old policy of deflation and budgetary stability. This Government was successful in removing the gold embargo and restoring the gold standard." This procedure though essential for the growth of healthy finance, was however bound to mean a certain amount of strain on the economic system for some time. But this disturbance was further accentuated by world factors. There was a catastrophic fall in the world prices, and a consequent depression of trade and industry the world over. It had its effect on Japan also. It reduced her exports, especially of raw silk. The tariff policy of India as well as the tariff autonomy that China secured in 1929 and her boycott against Japan, adversely affected Japan's export trade. On the other hand there was an increase in government expenditure in military

operations against China in Manchuria. This put a further strain on the national finances. The government had to resort to extensive borrowing and the gold reserves continued to decline. The world economic situation was getting worse ; England abandoned the Gold Standard in September 1931, and many other countries followed suit. This further checked Japan's export trade and created additional difficulties. Mr. Inouye's determination to maintain the value of the Yen was thwarted, the Government was defeated in December 1931, and the Gold embargo was immediately imposed. Thus Japan again went off the gold standard. The second attempt to return to the gold standard and sound financial conditions after the war was thus foiled, and the public feeling was so much against the Finance Minister responsible for it—Mr Junnosuke Inouye—that he was assassinated in February of the following year

#### FINANCIAL AND ECONOMIC DEVELOPMENT

Before proceeding further we should briefly notice how economic policies have affected the financial system of Japan. We have already pointed out that the Government of Japan fostered the economic development of the country by means of bounties, subsidies and even by direct participation in industrial activities. In the early days of her industrial career capital was scarce in Japan. It was the Government, which as we said before was called upon to make good this deficiency. But this meant a heavy strain on the financial system of the country. Immediately after the Meiji

Restoration the treasury was bankrupt, and to meet the heavy expenses entailed by the abolition of feudalism, new loans at rates as high as nine per cent had to be raised in London and elsewhere. Gradually as industrialization progressed, the yield from taxation increased, and during the early nineties, the condition of Government finances was eminently satisfactory. But then came the Sino-Japanese War, and it led to an increase in national expenditure though the budgetary deficits were not large. After this came the huge deficits of the Russo-Japanese War, which as we saw before drained away the resources of Japan. At the end of 1907, the Government recovered from the loss of the war, and almost till 1918 its financial condition was exceedingly satisfactory especially during the war years. Then again it had to face other financial difficulties which we have already considered. As we pointed out before, these financial difficulties were not merely the result of the wars which Japan had to wage. They were rather due to the Government's policy of encouraging industrial development. The point to be emphasized here is that the industrial development was not without its disadvantages. The people had to pay heavily for it. There was a heavy increase in the public debt of the country. There was heavy taxation—direct and indirect. There were large additions to excise and customs duties. A heavy tax of 10 per cent on the consumption of textile goods was for instance levied in 1905. The Government had to manage certain industries such as tobacco and camphor as government

concerns, and make profits out of them. Food-stuffs including ordinary beverages were subjected to tax. In addition to the ordinary income-tax a special business tax was levied. There was also the travelling-tax which was particularly obnoxious to the poor. The taxation was heavy, and relatively speaking it pressed more heavily upon the poor than upon the rich. The position continues to be nearly the same at present. The Government has to spend a large amount for the development of trade and industry. This expenditure is however justified as it is productive. But Japan also spends a very large amount for unproductive purposes such as armaments. As the Japanese themselves have admitted, Japan spends proportionately greater sums on armaments than any other civilized Power. The harmful effects of such expenditure and taxation can hardly be exaggerated.

## CHAPTER II

### ECONOMIC ORGANIZATION OF JAPAN (*Continued*).

#### IMPORTANCE OF AGRICULTURE IN JAPAN

In spite of the phenomenal development of trade and industry Japan is not an industrial nation in the Western sense of the term. Japan has not yet ceased to be, what she has been for ages, an agricultural country. Even today after more than fifty years of industrial and commercial development, the rural population constitute about fifty per cent of her total population and till recently the country was able to produce most of her food requirements. This persistence of agriculture as an important occupation is all the more remarkable in view of the fact that Japan has a smaller proportion of agricultural land than any other civilized country. Not only does it provide employment to nearly half the total population, it has also been and is the fundamental basis of her modern life. As Hattori<sup>1</sup> has said, it is to this industry that the country owed its ability to pay its way, and but for the peasant farmer, who by a more or less cheerful acquiescence in the imposition of a heavy land tax, made it practicable for the newly founded central government to carry on the

<sup>1</sup> Cf. Hattori . *The Foreign Commerce of Japan since the Restoration*, p. 67

task of administration on the western model, it is difficult to see where the resources could have been found for the consummation of so vast a change, which has occurred in Japan during the last sixty years.

### METHODS OF CULTIVATION.

The methods of cultivation in Japan are not as modern as compared to her industrial organisation. Cultivation is done chiefly by human labour assisted by crude and simple implements. The Japanese peasant takes a great deal of trouble in manuring his land. Recently, there has been an extensive use of chile nitrate and other chemical manures which were so long imported from abroad, but in recent years are being mostly manufactured in the country itself<sup>1</sup>

In view of the increasing pressure of the population on the food supply, and therefore the need of intensive cultivation there will be greater utilization of the organic and chemical fertilizers. This is desirable because the soil of Japan is not fertile. Moreover, great waste results, as in India, from the excessive fragmentation and subdivision of agricultural holdings. After the disappearance of feudalism, three-fourths of the available land came to be cultivated by a number of peasant proprietors. Since then due to social and economic factors, there has been further division and fragmentation and we now find that the holdings are very small, averaging 2·6 acres per agricultural family.<sup>2</sup> This situation, of course, militates against any improve-

<sup>1</sup> See Lalubhai Samaldas *My Impressions of Japan*, p. 80

<sup>2</sup> See E. G. R. Taylor *Production and Trade in Japan*, pp. 281-2.

ment in the methods of cultivation. Efforts are being made to consolidate these small holdings, but the movement has not yet appreciably affected the general position in the country as a whole. At the same time agriculture is being slowly mechanised.

### LIMITED AGRICULTURAL RESOURCES.

As we have seen before, agricultural land in Japan is limited as compared with the population to be supported and hence all the available land is exploited as far as possible. Even the hillsides are laboriously cultivated to their very summits. This poverty of agricultural land and resources is a fact of fundamental importance in understanding the past history and the present condition of Japan. It has been, for instance, the root cause of the three great wars that Japan waged in modern times ; it has also been the main cause of her recent adventures in Manchuria. This poverty of agricultural land and resources means that Japan has to depend mostly on foreign countries for the supply of raw materials and in more recent years even for a part of its food requirements. This dependence is not likely to decrease in the years to come. It seems that though during the last twenty years an increase in the production of food stuffs was obtained without any appreciable increase in total acreage, the law of diminishing returns has begun to operate in the case of Japan's agriculture, as can be evidenced from the fact that for producing a bushel of rice more labour and capital is required today than what was required twenty years before. It seems that Japan cannot support her

present population by domestic production alone but must import food from abroad. As regards her industries she will have to import raw materials in future, as in the past, from abroad.<sup>1</sup>

### POSITION OF FARMERS.

Although agriculture is an important industry in Japan the farmers are not well off. We are told by competent observers that the standard of living of the peasant is lower than that of the town wage earner, low as it is. As we have pointed out before, the holdings in Japan are very small and there is heavy taxation and rent. Most of this taxation goes to sustain Japan's armament burdens as a "Great Power," and in subsidies to business concerns.<sup>2</sup> Again, nearly half the land is owned by landlords and for this the cultivators have to pay a large amount of rent. These landlords have always harassed the peasant by increasing their demand for rent without taking any steps to enable him to increase the yield of the land or rendering him any other beneficial service. Hence in spite of the great trouble and hardships he undergoes in cultivating the land and the frugal way in which he manages his life,

<sup>1</sup> Cf. Porter *Japan, the Rise of a Modern Power*, p. 280, also cf. "Japan is not actuated by land lust. What she wants is unobstructed peaceable access to the raw materials of Manchuria on the fair and accepted principle of give and take, of live and let live. Japan sees no other way to industrialise herself and thus solve her pressing population problem" Kawakami *Japan Speaks on the Sino-Japanese Crisis*, p. 11.

<sup>2</sup> Cf. Utley *Lancashire and the Far East*, p. 116.

the peasant finds that he cannot live by agriculture alone. Consequently, every member of a household has to engage in other subsidiary occupations, whereby the family income might be augmented. Chief among the subsidiary occupations are sericulture and filature, various manufactures from straw, forestry and fishing. It is these poverty-stricken families which have supplied their daughters for employment in the cotton textile industry and thereby contributed to its prosperity. Had the nation depended upon agriculture as the basis of its economic life exclusively since 1890, as it had done before, either the population would have had to be kept to a lower level or the standard of life would have been lowered. Hence in fostering industrial and related activities the leaders of Japan were turning the growing population which was and would have been redundant in agriculture to industrial pursuits. There was diversification of employment and that was responsible for the economic progress and prosperity of the country.<sup>1</sup> From this point of view our economic problem is similar to that which Japan had to face in the early days of her industrial career. During recent years the agriculturists in Japan are suffering more than ever. Capitalism is gradually invading Japanese agriculture. Debt and other burdens of the agricultural community are increasing. But the peasants are now awakened and are forming radical parties and demanding State protection against the landlords. There is a strong movement for getting reduction in farm rents and the number of farm disputes is increas-

<sup>1</sup> See Moulton : *Japan*, pp 332-36.

Japan has to import a certain amount of rice from abroad.

### SILK INDUSTRY.

Since the product is largely exported in the raw state the Japanese silk industry may be said to be an agricultural industry and it is recognized as such in the Japanese official statistical publications. As Samson and Kermode<sup>1</sup> have said, rice and raw silk are very important in Japanese economy ; they influence directly and powerfully not only finance and trade but the social and political life of the country. Rice, because it is the staple crop and the staple diet, is a dominant factor in the internal price level. Raw silk, because it is by far the most important single item of export, affects the financial position of Japan in international account. Raw silk constitutes approximately one eighth of the value of all Japanese production, and about 40 per cent of the total value of all her exports. Japan has also come to be the principal supplier of raw silk to the world at large, her share being about 70 per cent as against 18 per cent of China, and 10 per cent of Italy, in the total world consumption of raw silk.<sup>2</sup> It is mainly with the proceeds of the sale of this commodity that Japan is able to pay for her food requirements and for raw materials for her industries, in which she is so deficient. In fact it may be called the backbone of her prosperity and on it depends the progress of her trade and industry.

<sup>1</sup> See Department of Overseas Trade, London, Report on Japan, 1933, p. 9.

<sup>2</sup> Cf. Japan Year Book, 1932, p. 157.

The silk industry is an ancient industry and was introduced into Japan by the Chinese and Korean immigrants. It did not however make much progress till 1860. In feudal Japan the demand and therefore the production of silk was limited, as the wearing of silk garments was a privilege reserved for the military aristocracy and forbidden to the rest of the people.<sup>1</sup> The industry, however, received a great impetus after the opening of Japan to foreign trade. At that time the silk industry in the United States was looking out for large supplies of raw silk and it found a good supplier in Japan.<sup>2</sup> This had a beneficial effect on the production of raw silk in that country and helped the Japanese agriculturists a great deal. We must remember that raw silk is produced by the Japanese peasant and his family as a subsidiary activity. As we have noted before the condition of the Japanese peasantry is far from satisfactory and by engaging in sericulture they can increase their earnings to some extent. In fact sericulture has saved them from utter ruin. A considerable amount of patience and skill is required to rear the silkworms and produce raw silk. It also requires cheap and abundant labour. The process permits no utilization of labour saving machines and hence it has not been found profitable to produce raw silk on a large scale; it is best carried on as a domestic industry on a small scale. Japan has cheap labour supply. It has also a climate favourable to the

<sup>1</sup> Cf. "Present Day Japan," Annual English Supplement of the "Ashahi," 1928, p. 38.

<sup>2</sup> Cf. Vide Wright: *The American Tariff and Oriental Trade*, pp. 110-11.

growth of the mulberry and the cocoon. China also has just as favourable a climate and even cheaper labour. But Japan has almost ousted her from the markets of the world through the development of steam filatures, and the persistent though not completely successful efforts of the Japanese producers and Government to improve quality and to standardize products.<sup>1</sup> On account of these advantages Japan is increasing her production of raw silk which is evident from the fact that the output during the year 1929 was ninety three million lbs. as against the prewar average of twenty eight million lbs. The rearing of the silk worms and the cultivation of mulberries are carried on in most parts of the main islands. Both in fineness and uniformity of quality marked improvement has been effected of late, thanks to the better methods of rearing and reeling.<sup>2</sup>

### SILK REELING.

Silk reeling is, as we noted before, the vital industry of the country. Production of raw silk consists of two stages, sericulture and reeling. We have already considered sericulture. Silk reeling in Japan is carried on with a small proportion of machinery and other labour saving devices.<sup>3</sup> It was in 1870 that the reeling machinery was first imported into Japan, and now the reeling of silk has come to be the foremost of all Japanese industries. It employed in 1931 about

<sup>1</sup> Orchard · op. cit., p 210.

<sup>2</sup> Japan Year Book, 1932, p 157

<sup>3</sup> Vide Matsuoka *Labour Conditions of Women and Children in Japan*, p. 30.

twenty-two per cent of all the workers in Japanese factories.<sup>1</sup> Because of the relatively small amount of equipment necessary for a silk filature and its simplicity the industry ranked only sixth from the point of view of the capital invested. In power consumed, it ranked far lower for little power is required for turning the light reels. There can however be no doubt about its leading position. It is the only major industry for which adequate supplies of raw materials are available in Japan.

#### SILK EXPORTED IN A RAW STATE.

It is significant to note that most of the silk produced in Japan is exported in its raw state.<sup>2</sup> Only a small amount of the raw silk is manufactured into finished silk goods, though recently it is increasing in amount. Most of the finished goods are consumed at home or sent to countries like India, which do not produce manufactured silk goods on a large scale. By the manufacture of this raw silk and export of silk fabrics Japan can support a larger population than by the export of silk in its raw state. The silk manufacturing industry of the United States with its protective tariff is, however, a great obstacle to such a consummation. Hence it is not likely that Japan will be able to dispose off these finished goods and make as much profit in that trade as she is doing at present in the raw silk trade.

The tariff policy of the United States is not, how-

<sup>1</sup> Financial and Economic Annual of Japan, 1933, p. 92

<sup>2</sup> Orchard . op cit , p. 215

ever, the only obstacle in the development of the silk manufacturing industry in Japan.<sup>1</sup> This is obvious from the fact that even in countries where there is no tariff on the imports of silk goods we find that the Japanese industry has made but only a small progress. This seems to be due to the nature of the demand for silk goods which is subject to constant changes according to the changes in fashion.\* Further, a wide variety of goods is required ; a few standardized types of goods will not be sufficient. The Japanese industry has not been able so far to satisfy these peculiarities of demand. Because of these two main factors the silk manufacturing industry of Japan has made only a small progress, and this has meant a great loss to Japan and her agriculturists.

Not only does the lack of a satisfactory development of the domestic manufacturing industry harm the Japanese silk reellers but there is also another factor which weakens them. The Mitsuis are the largest exporters of raw silk in Japan, and through a subsidiary company, also the largest buyers of raw cotton in America, and we are told that at times when they want currency for the purchase of raw cotton in America they obtain it by making large future sales of raw silk, thereby forcing down its price. This adversely affects the Japanese peasantry.<sup>2</sup> Again the position of the raw silk trade, as we shall see later, is not quite satisfactory. Further it has to meet the competition of the rayon (artificial silk) industry. Hence it

<sup>1</sup> Cf. Wright . *The American Tariff and Oriental Trade*, Chapter VIII.

<sup>2</sup> Cf. Utley : *Lancashire and the Far East*, p. 129.

is clear that the position of the raw silk industry of Japan is far from enviable.

### TEA

Though Japanese tea does not play an important part in the world markets it is quite an important crop in Japan, only next to rice. The rainy well drained hill slopes and the winter in Japan are particularly suited to the tea crop. It is not grown, as in India and Ceylon, by the tea planters on large plantations, but in small areas and that too as a subsidiary crop. In 1934 tea valued at 23 million Yen was produced, out of which 9.6 million Yen worth was exported. In 1935 the production was about the same, and the export rose to 11.4 million Yen. Nearly 80 per cent of the export goes to the U.S.A. The demand for the Japanese tea is dwindling owing partly to the deterioration in quality and the high prices of recent years, and partly to the increasing popularity of black teas in America. There is no doubt that the intensive propaganda of the Ceylon tea growers has been a factor adverse to Japan.<sup>1</sup> The trade will not improve unless something is done to improve the quality by a more careful and scientific manipulation of tea in the initial stages of preparation. But even then it is doubtful whether Japan's exports of tea will grow substantially in view of her limited area and the position of her competitors, especially India and Ceylon. Recently, the Japanese authorities have

<sup>1</sup> Department of Overseas Trade, London—Report on Japan, 1924 p. 48.

issued a regulation that all tea for export must be inspected.

#### OTHER AGRICULTURAL RESOURCES.

Besides rice and tea Japan produces a number of crops, the details of which we need not study here. She has rich forest resources on account of the favourable climate, though the total forest area is small as compared with other countries. This smallness of the area is of course due to the small size of the country itself. Nearly 95 million acres are covered by the forests which comes to about sixty per cent of the total area. These forests are well managed and produce a large amount of wealth ; they are especially important from the point of view of the Japanese shipping as they supply a large amount of timber.

#### OTHER OCCUPATIONS OF THE PEASANTS.

In strong contrast to western farmers, the peasants in Japan have not taken to poultry, dairy farming, animal husbandry and the raising of livestock. This is partly because of the limited grazing areas available and partly because of the influence of Buddhism and the vegetarian outlook that it has inculcated. It is not of course suggested that the Japanese people are or ever have been fully vegetarian ; it only means that they are mainly vegetarian. This vegetarian outlook has retarded not only the growth of these by-industries, but it has also affected the efficiency of the people inasmuch as we find that the present Japanese diet largely consists of rice and lacks sufficient proteins. In recent

years, however, there has been a change for the better ; there has been a growing demand for animal products and this is leading to the development of these industries. Besides livestock and poultry, the Japanese peasantry engage in fishing, weaving and the making of floor mats, straw braids, wood and bamboo articles and implements.<sup>1</sup> Thus, though the income of the peasants is not large the point to be emphasised is that they are mostly employed throughout the year, and hence there is not much seasonal migration of labour to the industrial areas, which we know is a very prominent feature in India.

### JAPAN'S INDUSTRIAL POSITION.

#### *Industrial success and technical progress*

We have seen before how from an insignificant position Japan has come to be a great power among the nations of the world in the course of a comparatively short period. She has developed many new industries on western lines and some of her industries like the cotton industry have challenged successfully western industries known for their excellent organization and strong position. In addition to other factors, the principal cause of Japan's great success is the great aptitude shown by her people to assimilate western technique and business organization. There are certain writers who say that what the Japanese have succeeded in doing is simply to imitate the results of western science without properly understanding them. It is true the

<sup>1</sup> Vide Moulton . *Japan*, p 46.

Japanese at first had to copy from the west, but that was because of their late emergence as an industrial nation. No longer can we say that Japan is dependent on an imported technique. Competent observers<sup>1</sup> of Japanese industrial and economic organization have testified to their excellence in the organisation of trade and industry, and as regards technical skill innovations like the Toyoda automatic looms and several other appliances speak for themselves. It is this technical efficiency—efficiency not only in the processes of production, but also in the organisation of industry and commerce—that has been one of the main causes of Japan's success

Since the War the industrial progress of Japan has been phenomenal. She got opportunities during the War to cater for certain markets, and these were availed of to the full. Besides she followed a systematic policy of trade expansion after the War. It has been estimated that industrial production in Japan has increased from 100 in 1921 to 180 in 1934. The progress has been all round, inasmuch as heavy industries such as metallurgical, machine making, and chemical have grown along with others. The progress of Japanese industry has been felt in the world markets, where Japanese goods have successfully taken the field against the products of other countries. In fact the cheapness and excellence of Japanese products has become an object both of admiration and envy to others, and have led to inquiries into Japanese methods of production

<sup>1</sup> e.g., Pearse, *op. cit.*, p. 12.

and organisation by various parties with a view to profit from the same

### CAUSES OF SUCCESS.

Among the causes of Japanese success the following may be mentioned :—(1) depreciation of the Yen since 1931; (2) fall in the cost of production due to increased efficiency; (3) severe price cutting in export markets; (4) subsidies by the state to different industries; (5) a rare unity of purpose and concerted effort on the part of the people.

It is not possible to assign the degree to which each cause has been responsible for the success. The combined effect of these causes has been to enable Japan to advance industrially and sell her products cheaply in foreign markets.

### WEAKNESS IN JAPAN'S INDUSTRIAL POSITION.

In spite of this, it must be admitted that the industrial position of Japan is not quite satisfactory,<sup>1</sup> and that is because of the poverty of natural resources and inadequacy of food supplies. Modern industry demands large supplies of natural resources such as iron, steel, coal, oil and raw materials. Japan is, however, unfortunate in this respect; a poverty of both raw materials and of power is her most fundamental weakness. Japan's industrialization is therefore dependent on foreign countries; she must depend on them and their good will while importing raw materials, and

<sup>1</sup> Cf. Orchard: *op. cit.*, p. 241.

secondly for disposing off the finished goods. This characteristic of her economic organisation is bound to circumscribe the growth of her trade and industry. As we shall see later even the foreign trade of Japan is not on a secure basis. Hence the Japanese industries lack stability both in prices and in the demand for manufactured articles. Foreign markets are easily disturbed by competition, by the appearance of substitutes, changing fashions and the fiscal policy of the foreign governments, factors beyond the control of the Japanese industrialists and even the Government.

#### SMALL SIZE OF INDUSTRIES IN JAPAN.

Unlike western countries, the industrial growth of Japan is due to the development of small scale industries. The following table will give an idea of the size of industrial establishments in Japan:—

No. of Factories in 1934.	Persons employed.
68,738	5 to 30
8,554	" 30 to 100
1,615	100 to 200
1,404	200 and more.

The smaller units are responsible for more than half of the industrial production of Japan. These small establishments are not likely to merge into bigger ones in future ; but are a permanent feature of Japan's industrial life. Due to the social and economic condition prevailing in Japan, this peculiarity has developed, and is likely to continue.

The small industries have certain advantages. They have developed their own technique of production. They have special facilities for obtaining raw materials and marketing their goods. Electric power is widely diffused in Japan and is cheap. This enables the small industries to have power without expensive outlay as in the case of steam. Besides, due to over-population there is a vast source of cheap labour, which the small industries are better able to utilise.

We shall now review in brief the position of a few important industries of Japan, viz. (a) the iron and steel industry, (b) the coal industry, and (c) the cotton textile industry.

### IRON AND STEEL INDUSTRY.

#### *Paucity of Iron and Coal*

Though Japan is a great industrial country she does not possess a sufficient quantity of iron and coal. The Japanese Empire is also deficient in these essential raw materials. That has been so from very early times and it has affected the social and economic organisation of the country; it explains, for instance, the predominance of wood in Japanese architecture and industry. In the past Japan has depended for iron and steel required for the building of her industry, mercantile marine and navy on foreign countries. Recently an iron and steel industry is being developed with the help of prohibitive tariffs and subsidies, but it is largely dependent for its raw material on foreign countries. The reserves of iron ore in Japan are estimated at only

five million tons, with a further fifty tons in Korea and Formosa.<sup>1</sup> The present output of iron ore in Japan is so small that it hardly supplies one tenth of the requirements of the national industry. To find new sources of iron ore and fuel, is a keynote of Japan's foreign policy. For that purpose Japan has penetrated into Manchuria and is trying to penetrate into China. But to import raw materials of this basic industry and then to develop the industry by means of tariff and subsidies is a costly affair. The larger the distance from which the iron ores have to be imported the greater are the costs of transportation, and therefore the greater will be the cost of its products. This in turn is sure to have adverse effects on industries which have to depend on the iron and steel products.

*Growth of the Industry.*

The mining industry of Japan was in an unsatisfactory condition at the time of the Meiji Restoration. Iron ore was mainly obtained from sand iron in the district of San-in and the whole process of obtaining iron and steel materials was primitive. But the industry was gradually re-organized. After the Restoration of 1868, the Government adopted a policy of state ownership of minerals, prohibiting all persons from mining at will. The first iron works on European lines were established under state management in 1900<sup>2</sup> This was successful and though it was not able to supply the total or even a major portion of the domestic require-

<sup>1</sup> Stamp : *Asia*, p. 544.

<sup>2</sup> Orchard : *op. cit.*, p. 239.

ments, it was successful in producing materials of the western type. Encouraged by its success many private works were founded, and by 1913 Japan was able to produce about 243 thousand tons of pig iron of which nearly two-thirds were produced in the Government workshop. The total consumption of pig iron in the same year was about 516 thousand tons, that is, the home production satisfied the total demand to the extent of less than fifty per cent. The output of steel in the same year was about 255 thousand tons, more than eighty per cent of which was produced in the Government works, and it was able to meet nearly one third of the total requirements of the country, the total consumption being about 755 thousand tons.

*Development during the war period.*

The war gave a great stimulus to the industry. During the war period there was a great demand for iron and steel materials for Japan's growing industries and shipping. On the other hand the old supplies were mostly cut off. Consequently many new concerns came into existence especially for the production of steel. At the end of 1918 the output of pig iron increased to about 700 thousand tons, an increase of more than 250 per cent over 1913, and of this, while the Government works supplied about 40 per cent the private works increased their share enormously and supplied about 60 per cent of the total output. The production of steel was more than doubled, and at the end of 1918 its total output was nearly 600 thousand tons as against only 255 in 1915. But in this case there was

a greater development of private enterprise than in the case of iron. We saw that in 1913 the Government iron works supplied about 85 per cent of the total output while the private works only 15 per cent. In 1918 we find that nearly 43 per cent was supplied by the private works while 57 per cent by the Government works. This development was indeed remarkable. In fact we may say that the modern Japanese steel industry is a product of the world war.

*Post-war developments*

The war time development of the Japanese iron and steel industry did not last long. With the return of normal peace conditions, the countries which were formerly supplying iron and steel materials began to produce to their usual capacity and appeared in the Japanese market with their cheap products. The Japanese industry was not able to face this competition. The majority of the new firms started during the war period were not efficiently organized ; some of them were too small to overcome the inherent handicaps of the industry and face world competition. Some of these concerns failed, but the industry as a whole was saved by an agreement among the producers regarding the prices and lines of production ; each factory was to confine itself to certain products and to market them at an agreed price level. The Government also came to the help of the industry both by means of the tariff and subsidies. As a result of these measures the crisis in the industry was averted and the production of steel increased considerably. The production of

the pig iron, however, did not show much increase and that was because of the cheap supplies available from India and other countries. The Government of Japan with a view to ensure the development of this basic industry imposed a heavy tariff on the imports of pig iron and consequently we find that in 1930 the production showed a big increase.

Though the production has shown an appreciable increase it is much less than that of most other countries. Dr. Orchard has, for instance, worked out the annual average output of pig iron for 1924-28 and it comes to only 0.8 million metric tons as compared with 1 of India and 37 of U.S.A.<sup>1</sup> What is more, whatever amount is produced in the Country is not sufficient for domestic requirements. Many plans have been made and discussed in the last few years for a radical reorganisation of the industry and the increase in its production.<sup>2</sup> The most recent is that for the establishment under the aegis of the South Manchuria Railway of a large iron and steel works with blast furnaces having an annual capacity of 500,000 tons of pig iron and steel furnaces and mills for the production of billets, sheet bars and rods. The plant has been purchased at a great cost. There were at the time certain serious difficulties in the execution of this scheme in connection with prices and also the position of the works in Chinese territory, and though there is no definite information on the point, it seems that the latter difficulty has dis-

<sup>1</sup> Orchard *op cit*, p. 223

<sup>2</sup> British Department of Overseas Trade—Report on Japan 1933, p. 38.

appeared after the recent events in Manchuria. To get over the former difficulty the Government of Japan has imposed a prohibitive duty on the imports of pig iron, and has also granted bounties and other financial assistance to the industry. Recently there has been a merger of various iron and steel companies under the auspices of the Government and this is expected to lead to beneficial results.<sup>1</sup>

Before the world war, Japan was able to produce only 48 per cent of pig iron, and 34 per cent of steel products required by her. Due to recent developments, by 1934 these percentages rose to 69 and 105 respectively.

The apparent aim of those concerned in Japan is to be independent of foreign sources and it is being realised. With the exception of a few special products, imports are no longer necessary.

### THE COAL INDUSTRY

Japan is poor in her coal deposits. They were estimated to be about 8 billion tons in 1913, but since then they have been depleted to an appreciable extent, and now they are estimated to be about 7 billion tons. The coal is mostly of a brown bituminous kind. There is very little anthracite and only a few deposits yield coal that will make satisfactory metallurgical coke. As compared to other countries the coal reserves of Japan both total and per capita, are even smaller than those of India and China, and certainly smaller than those

<sup>1</sup> See Indo-Japanese Trade Bulletin, May 1933.

of advanced countries like the U.S.A., the United Kingdom and Germany. Nor does Japan import a large quantity of coal and hence her consumption of coal is small. We have spoken before of the small size of industrial establishments in Japan and these establishments are able to get their power from the electrical industry which has been developed in the country. Not only are the coal reserves small, but the present output is also small. Further the distribution of these coal deposits is not satisfactory. They are not sufficiently near the industrial centres, and consequently the cost of transportation from the pits to them is appreciable.

#### *Development of the Industry*

The coal deposits of Japan had not been worked for industrial purposes before the Restoration, but with the modernization and the beginning of the new economic policy they were opened up and the output gradually increased. In 1875 it was 0.6 million tons, in 1894 3.3 million tons, in 1904 10 million tons and in 1913 it was 21 million tons. During the war period Japanese shipping and other industries required a large amount of coal, foreign supplies were cut off, prices rose and these factors stimulated the Japanese coal industry. In 1919 the production was 31 million tons. After the armistice the prices of coal fell and this checked the production to a certain extent. The industry was, however, stimulated once more and after 1922 we find an appreciable increase in its production. We must also note that during the post war period the

Electrical Industry is being gradually developed in Japan and this has had an adverse effect on the growth of the coal industry.

*Consumption of coal*

We notice an increasing tendency on the part of Japan towards the consumption of domestic coal and less towards exporting it. Even though the consumption of coal is increasing absolutely, the rate of its increase shows a tendency to slow down and the main causes of this appear to be two. The first is the competition of the recently developed hydro-electric industry, which though it has not yet attained its full potentialities is able to supply power cheaply and the second and the more important is the high cost of coal. This is mainly due to (1) payment of transport charges to carry coal from the pits to the industrial centres the distance between the two being appreciable. (2) The lower efficiency of Japanese mines, and (3) a rapid rise in the cost of producing coal since the Great War, partly due to the world factors and partly to local factors. In the early days coal could be had at a small depth from the surface. Now the mines have to be operated to greater depths; the seams are very poor. These factors are bound to raise the cost of production.

*Prospects of the Coal Industry.*

The prospects of the coal industry of Japan do not appear to be very bright in view of what has been said before. The seams are very poor and it is difficult to

work them at a profit.<sup>1</sup> If Japan is to depend on coal as the source of power for her industries, she will have to obtain her supplies from foreign countries especially China, and Manchuria. In view of this position, the policy of regulating the domestic output and prices, and restriction of imports from Manchuria and elsewhere is harmful from the point of view of the interests of the country in general. This policy has been adopted to protect the domestic coal industry. Such a policy may help the vested interests in the coal industry, but not other industries which utilize coal as their raw material. The interests of the community as a whole would be better served by a thorough reorganization of the coal industry, involving a number of amalgamations, the elimination of some of the weak firms and a reformed labour policy in place of the semi-feudal attitude at present adopted by many employers and the police.<sup>2</sup> Ultimately of course it will be best for Japan to obtain power and energy for her industries by the development of electrical industry for which she is so admirably situated.

### COTTON TEXTILE INDUSTRY

Second to silk reeling, cotton spinning is the most important factory industry of modern Japan not only from the point of view of the number of its employees but also from the point of view of its position in the export trade of the country. Cotton goods account for 24

<sup>1</sup> See Uyehara *op cit.* p. 208.

<sup>2</sup> Penrose *Food Supply and Raw Materials.*

per cent. of the total exports of Japan; Japan is the second largest consumer of raw cotton in the world, the U.S.A. being the first. It is a better index of the industrial progress of Japan than silk reeling, which is still connected with agriculture. As will be seen in greater details later, it is the most highly industrialized and rationalized industry of Japan, challenging in point of the excellence of its organization any other cotton industry in the world. It is also important from the point of view of the world at large. The development of this industry in Japan is having a profound effect on the prospects and growth of the cotton industry in other countries. In 1935 Japan had approximately 106 million spindles which is more than 7 per cent of the world total, and ranked third among the countries of the world.<sup>1</sup> But though this is less than the number of spindles in India or China, we must remember that the number of spindles alone is not an infallible index of the growth and position of the industry. We must also consider the output of the industry and the quality of its product. If we consider the Japanese industry from this point of view we find that it is much more important than what the number of spindles would alone suggest. We must also remember that the machinery is worked for longer hours than in most other countries of the world. Japan also consumes as large a quantity of raw cotton as Great Britain, although of course, since much of Great Britain's production is of finer quality than the Japanese, this does not mean that

<sup>1</sup> Bader : *World Development in the Cotton Industry*, p. 2.

either in yardage or in value Japan's production is yet nearly so great as Britain's.

In 1935 Japan exported about 2725 million square yards of cotton cloth. This remarkable development has been achieved, as we shall see below, in a short space of about forty years. This rapid expansion of Japan's industry has hit hard the old centres of the industry like Lancashire. S. Uyehara<sup>1</sup> has pointed out the following five causes for the development of the industry :—

(1) The industry is suitable for Japanese workers because of its working process.

(2) Low wages, especially cheap female labour in respect of low grade production, cheapens the cost of production.

(3) Japan is situated near large markets such as China and India

(4) The protective policy towards this industry not only keeps away foreign goods from the home market, but also enables Japanese firms to recover any loss occasioned by low quotations for export, by raising prices in the domestic trade.

(5) The big combined organisations facilitate the exports of cotton goods and the imports of raw cotton.

### FOREIGN TRADE OF JAPAN.

#### *Its Importance.*

Foreign trade is of fundamental importance in the economic life of modern Japan, just as it is in that of England. This is in strong contrast with the position in

<sup>1</sup> Uyehara . op cit., pp. 127-28.

India where foreign trade is of lesser importance. This is because of the small size of the country and its inadequate natural resources. Japan has, as we saw before, a large population in relation to her resources ; the country cannot produce food sufficient to feed the entire population, and has to depend, to some extent, on the import of food products. Again, except in the case of the silk industry, she has to obtain the raw materials for her industries from abroad. Her foreign trade may therefore be regarded as an elaborate machine for supplying the country with food and raw materials for her industries. Not only is Japan dependent on foreign countries for the import of food stuffs and raw materials, but she has also to depend on them for the disposal of her finished goods. Thus the economic life in Japan is based on a stable foreign trade. Any disturbance in foreign markets and a consequent stoppage or restriction of her trade will work havoc. It will severely affect the labouring classes since a large proportion of the industrial workers are employed in industries, which are wholly or to a large extent dependent on the ability of foreign markets to absorb their products. It will also affect other interests. Next to agriculture, trade is by far the most important single economic activity in Japan, whether measured by capital employed or by the number of people engaged therein.<sup>1</sup> This position has developed in recent times, because before 1868 Japan's economic life was self-sufficient.

<sup>1</sup> Cf. Moulton : *op. cit.*, pp. 133-34.

## SUMMARY.

We have now briefly studied the position of agriculture, industry and trade of Japan and found that in spite of her being industrialised, agriculture still plays an important part in the economic life of Japan. Japan is trying to grow her food on the domestic soil by imposing import duties and in other ways. This policy, though in the interests of some sections of her population is not in the interests of the country as a whole. It has led to an appreciable rise in the cost of living, which has necessitated, in some cases, a rise in wages. So far of course on account of the tardy development of the labour movement in the country, the rise in wages has not been proportionate to the rise in the cost of living. But when it takes place, as it is bound to do, it will affect the competitive position of Japan. From this point of view the whole tariff policy of Japan is harmful. The right policy for her would be to produce only such amount of food at home as can be economically produced and to import the rest of the amount from abroad. But the success of this policy depends on the attitude and policy of the foreign countries in respect of their imports of Japanese goods.

While studying the industrial position of the country, we saw that except in the case of raw silk Japan has not a sufficient amount of raw materials required for her manufacturing industries, and hence she has to depend on foreign markets both for the acquisition of raw materials as well as for the disposal of her manufactures. In this process Japanese industries receive

state assistance in the form of protective tariffs, direct and indirect subsidies and bounties. This policy is carried to extreme limits and attempts are made to be self-sufficient. Today there is hardly one field of trade, where there is not a Japanese competitor, where the supply has been left to foreign manufacturers. This policy needs to be reversed and as Inouye has suggested only such industries which with proper help will ultimately be able to stand on their own legs should be assisted and developed by the State.<sup>1</sup>

As we have said before both from the point of view of agriculture and industry, foreign trade is of paramount importance to Japan. But even here her position is not satisfactory. As we saw before, the foreign trade of Japan depends mainly on two commodities and two commodities only—raw silk and cotton goods. We have seen before that the raw silk trade is a trade in luxury goods, the demand for which is unstable, in addition to the possibility of its being challenged by the growing rayon industry on the one hand and the silk industry of China on the other. In the case of cotton goods also the position is not satisfactory. Again the trade of Japan depends on three countries—U.S.A., India and China, and hence the industrial life of Japan depends on the attitude and policy adopted by these countries towards their imports from Japan. There is a progressive increase in the duties on articles exported by Japan to U.S.A.<sup>2</sup> Japan cannot also depend on the Chinese market. We know well the political relations

<sup>1</sup> Inouye : *op. cit.*, p. 216.

<sup>2</sup> Cf. Wright : *op. cit.* 80-81.

between the two countries and the various boycotts that have been organized by the Chinese. Again the development of the manufacturing industries in China will cause much harm to the trade of Japan. The same will happen with her trade with India. In fact the whole position of industry and trade of Japan is anomalous. Japan has come too late in the field for capturing foreign markets. Like England in the nineteenth century she cannot hope to sell her manufactured goods abroad. She has succeeded so far because of the tardy industrial development in her two principal markets, China and India, and also because of the low cost of her labour as compared with the industrialized countries of the West. But these advantages are not certainly permanent. In fact the whole position of Japan is against the tendency of the times. Rightly or wrongly in recent years—especially during the post war years—there is a remarkable growth of nationalism and each country is trying to develop its own industries and be self-sufficient. Hence the outlook for a country like Japan, is none too bright.

## CHAPTER III.

### TRADE IN COTTON AND COTTON PIECEGOODS.

#### I. TRADE IN RAW COTTON

##### EXPORT OF RAW COTTON.

Raw Cotton is the principal article of our trade with Japan. It is the largest single item of our exports to Japan ; in the absence of raw cotton, our exports to Japan would be insignificant. Among the buyers of Indian Cotton, Japan holds the first place.

It is interesting to note that when we first began to export raw cotton, the U.K. was our chief buyer. Ever since 1788, the East India Company made special efforts in this country to encourage cotton growing for export to Lancashire. The U.S.A. was not a large producer at the time. Gradually by 1830 the U.S.A. acquired a hold over the British market. In spite of several efforts from time to time, and temporary revivals of Indian export due to special causes, Indian cotton did not find favour in Lancashire. In the meanwhile, however, the production of raw cotton in the country had grown.

With the growth of the cotton textile industry in Japan, her need for a steady supply of the raw material increased. Japan could not herself produce raw cotton ; nor could China help her in the matter. Japan sent a special mission for the purpose to India, as a result of

which Sir R. D. Tata sent in 1899-1900, 32 bales of raw cotton to Japan. Since then the export trade in raw cotton to Japan has increased steadily, and has now assumed large dimensions.

It may be noted that in the meanwhile, the Indian cotton textile industry had made considerable progress. The Indian industry had acquired an export market in yarn both in China and Japan. The immediate effect of the new trade in raw cotton noted above was the gradual extinction of our existing trade in yarn to those countries, because Japan could now produce the yarn required by her, and also meet China's requirements in yarn.

The nature of the trade in the years prior to the War will be evident from the following table :—

### RAW COTTON.

Quantity figures in thousand bales of 400 lbs. each. Value in lakhs of rupees.

Year	Total production	Total Exports		Total Exports to Japan.	
	Quantity	Quantity	Value	Quantity	Value
1905-06	3,426	2,113	2,133	637	687
1910-11	3,953	2,482	3,510	815	1,238
1911-12	3,288	2,094	2,952	1,004	1,421
1912-13	4,610	2,108	2,833	1,026	1,450
1913-14	5,065	3,036	4,104	1,376	1,940

This shows that in 1913-14, 60 per cent. of our production of cotton was exported, and of this nearly 46 per cent. was taken by Japan.

During the War there were some fluctuations in the trade. The position in recent years is given in the following table :—

EXPORTS OF RAW COTTON FROM INDIA

(In thousands of bales of 400 lbs each).

Year	To Japan	To other countries	Total	Japan's percentage of total
1928-29	1,610	2,102	3,712	43.37
1929-30	1,640	2,430	4,070	40.29
1930-31	1,686	2,240	3,926	42.94
1931-32	1,081	1,288	2,369	45.63
1932-33	1,086	977	2,063	52.64
1933-34	1,103	1,718	2,821	39.10
1934-35	2,055	1,435	3,490	58.88
1935-36	1,758	1,638	3,396	51.77

In 1935-36, we find that Japan took larger quantities of Indian cotton than all other countries put together, or 52 per cent of our total export.

CONSUMPTION OF RAW COTTON BY INDIAN MILLS.

It may be expected that the most important buyers of Indian cotton are the Indian mills. Though the Indian mills consume large quantities, the fact remains that the grower of Indian cotton has to depend to a greater extent on export than on local consumption. This tendency is being gradually changed for the better because of the gradual increase in the consumption of Indian cotton within the country. The following table gives an idea of Indian cotton taken up by the mills in India.

## CONSUMPTION OF INDIAN COTTON BY MILLS IN INDIA.

*(in thousands of bales of 400 lbs each)*

Year ending 31st August

1919-20	1,913	1927-28	1,771
1920-21	2,078	1928-29	1,992
1921-22	2,169	1929-30	2,373
1922-23	2,109	1930-31	2,269
1923-24	1,836	1931-32	2,346
1924-25	2,175	1932-33	2,361
1925-26	1,986	1933-34	2,336
1926-27	2,042	1934-35	2,611
		1935-36	2,678

Whereas the Indian mills took 26,78,000 bales in 1935-36, we exported 33,96,000 bales in the same year, of which Japan alone took 17,58,000 bales. Thus the importance of the export trade in raw cotton to our economic life, and the strong position of Japan in the same are brought out by these figures.

## JAPAN'S PURCHASES OF RAW COTTON.

While studying the position of Japan in our export trade of raw cotton, it is of interest to study the demand of Japan for raw cotton, and the place which Indian cotton occupies in Japan. The following tables bring out the tendencies. The first shows the share of India in the imports of Japan ; and the second the relative position of Indian cotton in the use of cotton by Japanese mills. It is obvious that the percentage of Indian cotton taken by Japan in recent years has fallen ; whereas in the quinquennium 1922-27, it was more than 50 per cent ; in 1934 it was only 43 per cent. The same tendency is revealed by the other table.

## TOTAL COTTON IMPORTS INTO JAPAN.

*(In million of piculs\*)*

Calendar Year.	From India	From all countries.	Percentage share of Indian to total imports.
1928	4.6	19.7	47
1929	5.1	10.8	47
1930	4.7	9.5	49
1931	4.8	11.1	43
1932	2.7	12.7	21
1933	4.0	12.5	32
1934	5.8	13.6	43

## CONSUMPTION OF DIFFERENT KINDS OF COTTON IN JAPAN

*(In actual bales—000 omitted)*

Year.	Percentage to Total.		
	American	Indian.	Others.
1928-29	43.7	49.3	7.0
1929-30	40.3	52.2	7.5
1930-31	40.2	53.9	6.9
1931-32	60.1	35.8	4.1
1932-33	64.4	30.2	5.4
1933-34	58.4	33.5	8.1
1934-35	48.5	42.7	8.8

## II. TRADE IN COTTON TWIST AND YARN

When the cotton mill industry developed in this country, and particularly in Bombay, China and Japan

\*1 Picul : 132.27 lbs, 3 piculs = 1 bale of 400 lbs

- NOTE
1. American cotton assumed to contain 480 lbs in a bale
  2. Egyptian cotton assumed to contain 740 lbs. in a bale
  3. Indian cotton assumed to contain 400 lbs. in a bale.
  4. Others assumed to contain 400 lbs. in a bale

were dependent on foreign supplies. In view of this, and in view of the port facilities in Bombay the Bombay mills developed an export trade in yarn to China and Japan. This trade assumed such importance that for a time the prosperity of the Bombay industry depended on it.

With the growth of the Japanese textile industry, the situation changed. We exported 25 million lbs. of yarn to Japan in 1889-90 ; this figure gradually declined in the following years, and the trade was extinct by the end of the century. It may be noted, however, that with the fall in our yarn trade with Japan, there was an increase in the export of Indian raw cotton to that country.

In the early years of this century, we find that these tendencies were strengthened. Further, Japan began to compete with us in the Chinese market, and we gradually lost our export trade to China in yarn. Not only this, but Japan now began to send yarn to us.

In 1913-14 we imported one million lbs. of yarn from Japan, out of a total import of 44 million lbs., most of which came from the U.K.

During the War Japan succeeded in pushing her yarn trade in India, chiefly at the expense of the U.K. In 1918-19 she sent 27 million lbs. out of a total of 38 million lbs.

The recent position of the yarn trade will be seen from the following table :

PRODUCTION AND TRADE IN COTTON YARN  
(Quantity in million lbs Value in lakhs of rupees.)

Year	Total production of yarn in India.	Imports of yarn in India.						Total including other coun- tries	
		From Japan		From China		From U K.			
		Q	V	Q	V	Q	V	Q	V
1913-14	683	1	61			38	354	44.2	436
1923-29	648	7.6	124	12	128	23	356	43.8	629
1929-30	834	11	164	11	111	20.1	296	43.1	599
1930-31	867	7	84	12	96	10.3	127	29.9	308
1931-32	966	6.2	83	13	92	11.9	122	31.5	299
1932-33	1016	18	161	13	84	13.4	132	45	379
1933-34	921	12	96	10	65	10	96	32	258
1934-35	1001	11	116	13	92	10	100	34	310
1935-36	1058	21	179	13	94	10	97	45	371

This table shows that China has also become an exporter of yarn to India. It may be pointed out that most of the imports from China are from mills under Japanese control, and it seems that the Japanese manufacturers find it more advantageous to export yarn to India from their mills in China<sup>1</sup>. The other fact which is revealed by these figures is the fall in the import from the U.K.

### III. TRADE IN COTTON PIECEGOODS

#### *Import of Cotton goods*

Before 1889 we had some export trade in piecegoods with Japan. Though the volume was not large, it has some historical importance. By 1889, this trade declined due to the growth of the textile industry in Japan. Gradually the situation changed, and Japan began to send small quantities of piecegoods to us.

<sup>1</sup> Cf. Review of the Trade of India, 1930-31, p. 29.

In order to study the position of the trade in piecegoods, and the relative position of different countries in the same, we shall first compare the total imports with the production in the country. The imports naturally vary with the growth of the local industry, and the share of different countries in the import trade must be adjusted accordingly. The following table shows the imports of piecegoods compared with the local production, both of mills and handlooms.

IMPORT AND INDIAN PRODUCTION.

Years.	Total imports (Yards millions)	Mill production.	Estimated handloom production
1913-14	3,197	1,164	1,070
1928-29	1,937	1,893	1,080
1929-30	1,919	2,419	1,400
1930-31	890	2,561	1,390
1931-32	776	2,990	1,500
1932-33	1,225	3,170	1,700
1933-34	796	2,945	1,440
1934-35	944	3,397	1,460
1935-36	946	3,567	1,840

Compared with the pre-war year, our mill production has increased threefold. The handloom production also shows a substantial increase. Though the total amount taken by us exceeds 900 million yards, the import trade has fallen considerably from 3197 million yards in 1913-14 to 946 million yards in 1935-36. Thus the market for foreign goods in India has shrunk, and it is in this narrowed sphere that the competing foreign suppliers have to work.

#### SHARE OF DIFFERENT COUNTRIES

We are now in a position to study the relative position of the different countries which send us cotton

piecegoods. The following table gives the relevant figures :—

IMPORT OF COTTON PIECEGOODS INTO INDIA.

Year.	United kingdom.		Japan		Other countries		Total Million yards.
	Million yds	Percent-age.	Million yds.	Percent-age	Million yds	Percent-age.	
1913-14	3,107	97.1	9	3	84	2.6	3,197
1928-29	1,456	75.2	537	18.4	124	6.4	1,937
1929-30	1,248	65.0	562	29.3	109	5.7	1,919
1930-31	523	58.8	321	36.1	46	5.1	890
1931-32	383	49.4	340	43.8	53	6.8	776
1932-33	597	48.7	580	47.3	48	4.0	1,225
1933-34	426	53.5	349	43.8	21	3.7	796
1934-35	552	58.5	374	39.6	18	1.9	944
1935-36	439	46.4	496	52.4	11	1.2	946

We notice that before the War, the U.K. had a practical monopoly of supply to us. The position of Japan was insignificant and the other countries between them sent us only 2.6 per cent of the total import. The import from the U. K. has fallen from 3107 million yards in 1913-14 to 439 million yards in 1935-36 ; during the same period the import from Japan has increased from 9 million yards to 496 million yards. The percentage share of the U.K. and Japan in our trade in 1935-36 was 46.4 and 52.4 respectively. The stronghold obtained by Japan in our market is thus obvious. Japan has successfully competed in the Indian market not only against British goods, but also against the products of the local industry, which has found itself in difficulties on account of the Japanese competition.

## RELATIVE POSITION OF THE U.K. AND JAPAN.

The following table further analyses the position of the U.K. and Japan in the import of cotton piecegoods by classes :

## IMPORTS OF GREY, WHITE AND COLOURED PIECEGOODS INTO INDIA

(In millions of yards)

Year.	Grey			White			Dyed, Coloured etc.		
	From U K.	From Japan	Total	From U K.	From Japan	Total	From U K.	From Japan	Total
1916-17	762	76	847	582	3	590	404	22	455
1928-29	582	242	839	525	6	554	336	110	507
1929-30	521	394	926	436	14	474	279	154	483
1930-31	143	218	365	230	28	272	148	74	246
1931-32	60	185	249	207	60	280	110	95	223
1932-33	111	244	356	281	120	413	194	214	425
1933-34	88	142	230	184	75	262	142	124	269
1934-35	103	194	297	237	40	285	213	143	391
1935-36	85	246	332	199	58	263	155	191	351

The position indicated in the above table can be summarised as under :—

## PERCENTAGE SHARES OF U K AND JAPAN

	Grey		White.		Dyed	
	U. K.	Japan	U K.	Japan	U. K.	Japan
1916-17	89.9	8.9	98.6	15	88.8	4.8
1935-36	25.6	74.1	75.7	22.1	44.2	54.4

It is obvious that Japan has made the greatest progress in grey goods ; her progress in coloured goods is

very large ; in white goods the U.K. still commands the major share.

### JAPANESE IMPORTS AND LOCAL PRODUCTION.

It is of equal interest to compare the position of Japanese imports by classes with that of the local production. The following two tables show the relative position of imports from Japan, total imports, and local production in the requirements of the country. The first refers to grey and white piecegoods ; the second to coloured and printed piecegoods.

#### MILL-MADE GREY AND WHITE COTTON PIECEGOODS

Year. 1	Imports from Japan. 2		Total imports. 3		Indian Mill production 4		Total 5
	Million yds.	Percentage of total.	Million yds	Percentage of total	Million yds	Percentage of total	Million yds.
1916-17	79	3.1	1,432	56.6	1,100	43.4	2,537
1928-29	248	8.8	1,393	49.6	1,410	50.4	2,803
1929-30	408	12.7	1,400	43.5	1,815	56.5	3,215
1930-31	246	9.3	637	24.1	2,003	75.9	2,640
1931-32	245	8.6	529	18.6	2,311	81.4	2,840
1932-33	364	11.4	769	24.0	2,423	76.0	3,192
1933-34	217	7.9	492	17.8	2,265	82.2	2,757
1934-35	234	7.3	583	18.1	2,641	81.9	3,224
1935-36	304	9.0	595	17.7	2,768	82.3	3,363

the latter case. The Indian demand is therefore supplied to a lesser extent by imports ; the share of imports having fallen from 56 to 17 per cent in the former, and from 53 to 30 per cent in the latter case. In spite of this reduction in imports, Japan has increased her share in both cases ; from 3 to 9 per cent in the former and from 2·5 to 16·6 per cent in the latter.

In view of the position obtained by Japan in the Indian market, it is of interest to note the extent to which the Japanese industry depends on us for the disposal of its goods. The following tables show the position of India in the export of different classes of piece-goods from Japan :—

EXPORT FROM JAPAN.  
*Cotton Piecegoods Grey.*

Year.	Quantity in million yards.			
	To India	To other countries	Total exports.	India's percentage
1922	96	195	291	33
1923	90	252	332	27
1924	95	300	395	24
1925	125	310	435	29
1926	145	310	455	32
1927	216	266	482	45
1928	249*	226*	475*	52
1929	411	216*	627*	66
1930	295*	377*	672*	44
1931	247*	314*	561*	44
1932	315*	434*	749*	42
1933	195*	416*	611*	32
1934	219*	553*	772*	28
1935	313*	632*	945*	34

Note : Japanese Trade accounts included Ceylon in British India up to 1933.

\* In million sq. yards.

EXPORT FROM JAPAN.  
(*Cotton Piecegoods. Bleached.*)

Year	Quantity in Million yards			India's per-centage.
	To India	To other countries	Total exports.	
1922	0.3	1.6	1.9	16
1923	1.2	20.5	21.7	6
1924	1.4	43.8	45.2	3
1925	2.0	51.7	53.7	4
1926	2.4	56.9	59.3	4
1927	7.7	64.8	72.5	11
1928	6.9*	107.1*	114.0*	7
1929	16.4*	110.8*	127.2*	13
1930	28.3*	134.0*	162.3*	17
1931	67.5*	122.7*	190.2*	36
1932	142.7*	217.2*	359.9*	40
1933	108*	356*	464*	23
1934	59*	451*	510*	12
1935	70*	441*	511*	14

NOTE Japanese Trade Accounts included Ceylon under British India up to 1933.

We note that in grey goods India took 34 per cent of Japanese export in 1935 ; and in bleached goods she took 14 per cent in the same year. In either case the share of India was larger a few years ago, but shows a decline in recent years. In any case, on the whole, India is the largest single market for Japanese piecegoods.

\* In million sq. yds

## CHAPTER IV.

### OTHER EXPORTS FROM INDIA TO JAPAN.

In this chapter, we propose to review briefly the position of our export trade with Japan in articles other than raw cotton.

#### RAW JUTE.

Though the quantity of raw jute exported is increasing and is likely to approach the predepression level, in value our exports are still low. In 1935-36 our exports were valued at about Rupees 14 crores of which Japan took less than 3 per cent. The U.K. took more than 21 per cent, Germany 16 and France 10. The Indian supply constituted about one fourth of the Japanese requirements. The chief source of supply for Japan is the Phillipine Islands.

#### JUTE MANUFACTURES.

##### (a) *Gunny bags.*

The general tendency in this trade is similar to that of raw jute. We exported Rupees 11 crores worth of gunny bags in 1935-36 of which Japan took more than 4 per cent. Australia took the largest quantity or more than 16 per cent ; and the U.K. took 10 per cent. India is the principal supplier to Japan though she has also a few other suppliers.

##### (b) *Gunny cloth.*

Though the quantity of gunny cloth exported is gradually rising to the predepression level, in value we

are below the figures of former years. We exported cloth worth more than Rupees 12 crores in 1935-36. Japan takes insignificant quantities of this material from us ; our chief buyer is the U.S.A. which took about 60 per cent in 1935-36, the Argentine Republic taking 15 per cent.

#### CHEMICALS AND CHEMICAL PREPARATIONS.

Our exports have been about 17 lakhs of rupees in recent years out of which Japan takes only a small percentage. Though Japan's share was about 8 per cent in 1931-32 and in 1932-33, it fell to 2 per cent in 1934-35. Our chief customers of this article are the U.K., Ceylon and Mauritius.

#### COIR MANUFACTURE. (EXCLUDING ROPE).

Export of this article has been varying between 75 lakhs and 88 lakhs during recent years. Out of this Japan takes only about 1 per cent. Our principal market in this commodity is the U.K. which took more than 35 per cent in 1935-36 ; the continental European countries also took fairly large quantities.

#### DYEING AND TANNING SUBSTANCES.

##### *Myrobalans*

We exported on an average more than 5 lakhs of rupees worth of this commodity during recent years. The share of Japan has been from 1 to 2 per cent of this. The U.K. takes nearly 50 per cent of our export. The Indian supply constituted about 9 per cent of the Japanese import during 1933, and 5.6 per cent during 1934. This shows that there is a good scope for the progress of Indian trade in this article in Japan.

as the Japanese market is concerned in this commodity. It may be noted that both in quantity and value the imports of Japan have shown an increase in recent years, and it is desirable that steps be taken to maintain this market for the Indian article.

#### LEATHER : SKINS, TANNED OR DRESSED : SHEEP SKINS.

We exported about Rupees 140 lakhs worth during recent years of which Japan has been taking on an average about 15 per cent, our largest buyer being the U.K. India has practically a monopoly in the supply of this article to Japan, her share in Japanese total imports being 95 per cent.

#### MANURES.    BONEMEAL.

The export of this commodity has fallen from 42 lakhs in 1922-23 to 14 lakhs in 1935-36. Japan takes less than 5 per cent of this. Our largest buyers are U.K., Ceylon and U.S.A. The position of India in the import of Japan which was fairly good in earlier years has gone down completely.

#### METALS AND ORES.

##### *Iron or steel*

##### (a) PIG IRON

Our export of pig iron in 1935-36 was 124 lakhs which was somewhat higher than in the few years preceding, though it was smaller than in the pre-depression years. Japan takes about three-quarters of our export. The U.K. and the U.S.A. are the chief buyers of the remaining export. The Indian supply was about 37 per cent in quantity and 32 per cent in

value of the Japanese import in 1935. This shows the available market for the expansion of Indian trade

(b) OLD IRON OR STEEL FOR RE-MANUFACTURE.

We exported about 13 lakhs worth of this commodity in 1935-36 ; most of which went to Japan. The Indian supply formed about 7 per cent of the Japanese requirement in 1934, though it was larger in earlier years.

(c) FIG LEAD

In 1935-36 we exported 178 lakhs worth of this commodity, the share of Japan being 30 per cent. The U.K. is our largest buyer taking 61 per cent. The Indian share in the Japanese market is 22 per cent. The possibility of expanding the Indian trade is not great, unless the production is increased. This is shown by the fact that in 1934-35 we exported 61 thousand tons out of a total production of 71 thousand tons.

(d) MANGANESE ORE.

Our export of this commodity showed some increase in 1935-36 over the preceding years and was 132 lakhs of rupees. Japan took about 22 per cent, the U.K. took 29 per cent and France 15 per cent.

*Mica.*

(a) MICA IN BLOCKS.

We exported 41 lakhs worth of this commodity in 1935-36 of which Japan took more than 7 per cent. The U.K. is our largest market taking about 60 per cent, the U.S.A. which took about 18 per cent is next in order.

## (b) MICA IN SPLITTINGS.

We exported in 1935-36 about 42 lakhs worth of this commodity, Japan taking less than 5 per cent. Our principal buyers are the U.S.A. and the U.K.

## SANDALWOOD OIL.

The total exports of sandalwood oil have gone down considerably both in quantity and value compared with those in the predepression period. We exported 11 lakhs worth of sandalwood oil in 1935-36 of which Japan took 28 per cent. The U.K. is our largest buyer taking 64 per cent. The Indian supply was 21 per cent in 1934, in the Japanese market. This shows that there is room for improvement in this trade.

## OILCAKES.

*Rape and sesamum cake.*

The export of these oil cakes has fallen during recent years both in quantity and value. In 1935-36 we exported only 14 lakhs worth of this commodity of which Japan took about 19 per cent. Ceylon is our chief buyer and took more than 80 per cent in 1935-36. The Indian supply constituted about 50 per cent of the Japanese import in recent years, but in 1935-36 there has been a large fall. Some effort will have to be made to maintain this trade.

## PARAFFIN WAX.

We have been exporting on an average more than Rupees two crores worth of Paraffin Wax. Whereas Japan took fairly large quantities in earlier years we

have practically lost that market in recent years. Our chief buyer is the U.K. which took 36 per cent of our export in 1935-36. There is no reason why by some efforts we cannot recapture a part of the Japanese market. It may be noted, however, that a greater portion of our production is exported, and the possibilities of expansion of trade will depend on the increase of production.

### RAW RUBBER.

Though the predepression level has been exceeded by us in the export of rubber so far as quantity is concerned, we are still at a lower level so far as value is concerned because of lower prices. Our exports in 1935-36 were more than Rupees 88 lakhs. Japan took only insignificant quantities in earlier years and took nothing from us in 1935-36. The U.K. took 36 per cent and Ceylon 20 per cent in 1935-36. In the predepression period Japan was a buyer of some importance from India but we have lost that market now. The greater portion of the rubber produced is exported. If the production increases it may be necessary to find other markets. It may be noted that there is no import duty on raw rubber in the principal countries which import this commodity.

### LINSEED.

The export of linseed was considerable during the predepression period and we are still far below that level, particularly in value. Our export in 1935-36 was valued at more than 2 crores of rupees. Japan does

not take Indian linseed, our chief buyer is the U.K. which took more than 46 per cent in 1935-36." Japan depended to a large extent on Indian linseed in former years but she is now receiving her supplies chiefly from China. There is considerable room for the expansion of this trade in the Japanese market.

#### UNMANUFACTURED TOBACCO.

We exported Rupees 88 lakhs worth of unmanufactured tobacco in 1935-36 of which Japan took 12 per cent. The U.K. took more than 5 per cent. The Indian supply is about 10 per cent of Japan's requirements. Japan obtains large quantities from the U.S.A., China and the Philippines. There is obviously considerable room for expansion of the trade in Japan in this article.

## CHAPTER V

### OTHER IMPORTS FROM JAPAN TO INDIA.

In this chapter we propose to review in brief the position of the import trade of India from Japan in articles other than cotton piecegoods.

#### SILK.

##### (a) *Piecegoods.*

The import fell from Rupees 244 lakhs in 1928-29 to Rupees 90 lakhs in 1935-36. The share of Japan rose from 57 to 80 per cent in the interval. The share of China fell ; we got 14 per cent from that country in 1935-36. The Indian demand was 28 per cent of the Japanese export in 1934. India is the largest single market for the Japanese product. We have a small, but fluctuating export trade in this article.

##### (b) *Goods of silk mixed with other materials.*

The import rose from Rupees 40 lakhs in 1928-29 to Rupees 74 lakhs in 1934-35, and fell again to Rupees 43 lakhs in 1935-36. The share of Japan rose from 40 to 81 per cent in the same period. India took 14 per cent of the Japanese export in 1934. We have a small export trade in this article.

##### (c) *Silk manufactures. Thread sewing.*

The import fell from Rupees 176 thousand in 1928-29 to Rupees 40 thousand in 1935-36. Japan's

share is liable to great fluctuations and has fallen to 1 per cent in recent years. We depend mainly on the U.K. for this product

(d) *Silk manufactures. Other sorts.*

The import fell from Rupees 5 lakhs in 1928-29 to Rupees one lakh in 1935-36. The share of Japan rose from 14 to 27 per cent in the interval. The share of the U.K. also rose ; we received 37 per cent in 1935-36 from the U.K. The U.S.A. has lost considerably in the Indian market in this article. We have an export trade in this article

## WOOL

(a) *Hosiery*

We imported Rupees 20 lakhs worth in 1928-29 ; the import fell thereafter, but has risen gradually to Rupees 17 lakhs in 1935-36. The share of Japan rose from 1 to 65 per cent in the interval. This has been at the expense of the U.K. which sent us 34 per cent in 1935-36.

(b) *Piecegoods.*

The import fell from Rupees 284 lakhs in 1928-29 to Rupees 81 lakhs in 1935-36. The share of Japan rose from 1 to 27 per cent in the interval. The share of the U.K. has also increased ; we got 54 per cent from the U.K. in 1935-36. The continental European countries have suffered in their share.

We have a small export trade in this article.

## ARTIFICIAL SILK

(a) *Piecegoods made entirely of artificial silk.*

The import rose from Rupees 83 lakhs in 1930-31 to Rupees 188 lakhs in 1935-36. We depend mainly on Japan for this article. In 1935-36 Japan sent us 98 per cent.

(b) *Piecegoods made of cotton and artificial silk.*

The imports rose from Rupees 20 lakhs in 1930-31 to Rupees 34 lakhs in 1935-36. The share of Japan rose from 13 to 59 per cent in the same period. The share of the U.K. has also increased. The continental European countries have suffered in their share.

(c) *Other sorts of artificial silk other than yarn and piecegoods.*

The import fell from Rupees 11 lakhs in 1928-29 to Rupees 5 lakhs in 1935-36. The share of Japan grew from 29 to 55 per cent in the interval. The share of the U.K. fell from 24 to 11 per cent in the same period. Germany and the U.S.A. have also suffered in their share in the Indian market.

## COTTON GOODS OTHER THAN PIECEGOODS

(a) *Blankets.*

The import fell from Rupees 24 lakhs in 1928-29 to Rupees 13 lakhs in 1935-36. There has been some recovery in recent years. The share of Japan was 27 per cent in the former year ; it rose to 88 per cent in the latter. India took about 18 per cent of the Japanese export in 1935.

(b) *Canvas.*

In 1928-29, we imported more than Rupees 9 lakhs worth. After some fall, the import has recovered

recently ; in 1935-36 we took Rupees 8 lakhs worth. The share of Japan fell from 12 per cent to 8 per cent in the same period. The U.K. sent us 90 per cent in 1935-36.

(c) *Handkerchiefs and shawls in the piece.*

The import fell from Rupees 16 lakhs in 1928-29 to Rupees 5 lakhs in 1935-36. Japan's share was about 6 per cent in the former year ; it rose to 43 per cent in the latter. The expansion of Japan's share has been chiefly at the expense of the U.K. whose share fell from 85 to 56 per cent in the same period. The Indian demand was 13 per cent of the Japanese export in 1934.

(d) *Hosiery. Stockings and socks*

The import fell from Rupees 20 lakhs in 1928-29 to Rupees 8 lakhs in 1935-36. Japan's share rose from 50 to 75 per cent in the same period. We took 13 per cent of the Japanese export in 1934.

(e) *Hosiery Underwear*

The import fell from Rupees 120 lakhs in 1928-29 to Rupees 23 lakhs in 1935-36. Japan has a practical monopoly in this trade ; she sends us more than 90 per cent of our requirement. We took 21 per cent of the Japanese export in 1934. India is the largest single market for Japan in this article.

## OTHER TEXTILE GOODS.

(a) *Haberdashery and Millinery Lace and Embroidery.*

The import fell from Rupees 43 lakhs in 1928-29 to Rupees 17 lakhs in 1935-36. Japan's share was only 4 per cent in the former year ; it rose to 11 per

cent in the latter. Among our other suppliers, Germany and Italy are the more important. India took 48 per cent of the Japanese export in 1934, and forms the largest single market for Japan in this article.

We have a local production and some export trade.

(b) *Haberdashery and Millinery. Towels not in the piece.*

The import fell from 10 lakhs in 1928-29 to Rupees 5 lakhs in 1935-36 ; the share of Japan rose from 90 to 100 per cent in the same period. We took 15 per cent of the Japanese export in 1934. We have a local production and some export trade

(c) *Haberdashery and Millinery. Other sorts.*

The import fell from Rupees 81 lakhs in 1928-29 to Rupees 34 lakhs in 1935-36. The share of Japan rose from 11 to 53 per cent in the same period. The Japanese expansion has been at the expense of the U K. and Germany. We have a local production and an export trade

APPAREL. EXCLUDING HOSIERY, BOOTS AND SHOES.

(a) *Apparel including drapery, uniforms, etc*

The import of this article has somewhat fallen, though the share of Japan has steadily increased. We imported nearly Rupees 36 lakhs worth of this commodity in 1935-36, of which Japan supplied more than Rupees 19 lakhs. The share of Japan which was less than 19 per cent before 1930 steadily increased, and has been well above 50 per cent of our total import in recent years. The expansion of Japan's trade has been chiefly at the expense of that of the U.K. whose share

was more than 50 per cent in earlier years and has now fallen to about 33 per cent. Japan sends this commodity to several countries, but India forms the largest single market for her ; we took about 13 per cent of her total export of this commodity in 1934.

(b) *Hats, caps, bonnets, and hatter's ware.*

Though the total import of this article has been somewhat fluctuating, the share of Japan has been steadily increasing. We imported about Rupees 16 lakhs worth of this article in 1935-36 of which Japan sent us nearly 55 per cent. The share of Japan was less than 10 per cent before 1920. The U.K. and Italy used to send us large quantities and the share of both these countries have gone down, that of the U.K. being 21 per cent and that of Italy being 8 per cent in 1935-36. India takes 8 per cent of the Japanese export of this commodity.

### BELTING FOR MACHINERY.

(a) *Cotton belting.*

Our import of this commodity shows a steady decline. It was a little more than Rupees six lakhs in 1935-36. We chiefly depended for our supply on the U.K. till recently. Japan has tried to enter the field in recent years and is now supplying 4 per cent of our requirements.

(b) *Leather belting.*

Our total import of this commodity also shows a decline. We imported about Rupees 25 lakhs worth in 1935-36. The share of Japan has not been large and has been in the neighbourhood of about 4 per cent. Our

chief suppliers are the U.K. and the U.S.A. From the point of view of Japan, India forms an important market for her export of this commodity, because we take more than 30 per cent of her total export, China taking about 40 per cent.

### BOBBINS

The import of bobbins shows some decline in recent years. We imported, in 1935-36, Rupees 31 lakhs worth of which Japan sent us 25 per cent. The U.K. sent us 58 per cent ; though the share of the U.K. is large, it may be noted that Japan has gradually increased her share at the expense of the U.K., which supplied us with about 90 per cent of this commodity before 1930.

### BOOTS AND SHOES.

#### (a) *All leather.*

There has been some decline in our import of this commodity in recent years. Though Japan's share has been small she has gradually increased the quantity sent to us. We imported Rupees 12 lakhs worth in 1935-36 of which Japan sent us 1·3 per cent. Our principal suppliers have been the U.K. and Czechoslovakia. It may be noted that the share of the U.K. has fallen from 77 per cent in 1930 to 45 per cent in 1935-36, and that of Czechoslovakia has increased from 15 per cent to 49 per cent during the same period.

It may be noted that there is a growing production of this commodity within India itself, though the statistics of production are not easily available. Indirect evidence however, of the growth of this industry in India can be had from the fact that the exports of boots

and shoes of all kinds from India are increasing ; in 1935-36 we exported more than Rupees 10 lakhs worth.

(b) *Rubber soled with canvas uppers.*

Though the import of this commodity has fallen in recent years, the share of Japan remains practically the same. In 1935-36 we imported more than Rupees 12 lakhs of which Japan sent 91 per cent.

(c) *All rubber.*

In this case also the import has fallen in recent years though the share of Japan remains at a high level. We imported only Rupees 2 lakhs worth in 1935-36 of which Japan sent us 55 per cent. India constitutes the largest single market for Japan in this commodity taking 12 per cent of her export.

### BOOTS AND SHOES.

*Of materials other than leather and rubber*

The import of this commodity has fallen considerably in recent years, being only Rupees 1½ lakhs in 1935-36. Japan sent us about 19 per cent, the share of Czechoslovakia and the U.K. being larger.

### BRUSHES.

(a) *Toilet brushes.*

The import of this commodity shows a steady increase and was more than Rupees 6 lakhs in 1935-36. Japan sent us about 18 per cent, the shares of Germany and the U.S.A. being 19 and 15 per cent respectively.

(b) *Other than toilet and paint and varnish brushes*

The import of this article has been on the whole steady though the share of Japan has been gradually

rising. We imported Rupees  $4\frac{1}{2}$  lakhs worth in 1935-36 of which Japan sent us more than 21 per cent ; the U K. sends us about 55 per cent.

#### PORTLAND CEMENT.

The import of cement shows a considerable decline due obviously to the growth of the local industry. In spite of this we are importing small quantities. In 1935-36 we imported about Rupees 19 lakhs worth of cement, of which Japan supplied 10 per cent, the U.K. sent us 88 per cent.

#### TILES.

The import of tiles shows a decline though the share of Japan shows a considerable increase. In 1935-36 we imported more than Rupees 14 lakhs worth of which Japan sent us 54 per cent. The increase in Japan's share has been chiefly at the expense of Belgium and Italy which supplied us large quantities in earlier years. Though the statistics of production are not available, we have a growing industry in tiles in the country and also an export trade in the same commodity.

#### BUTTONS, OF ALL SORTS.

The import of buttons has been on the whole steady though the share of Japan is increasing. In 1935-36 we imported Rupees 23 lakhs worth, of which Japan sent us more than 43 per cent. Germany and Czechoslovakia are the other two countries which send us buttons in large quantities. The largest market for

the export of buttons from Japan is the U.K. which takes 20 per cent, India coming next in order.

### CHEMICALS AND CHEMICAL PREPARATIONS

#### (a) *Alum.*

The import of this commodity has fallen considerably in recent years. In 1935-36 we imported only 47 thousand worth of which 6 per cent came from Japan. The U.K. and Germany are our principal suppliers.

#### (b) *Potassium compound.*

There has been a gradual rise in the import of this article and also in the share of Japan in the same. In 1935-36 we imported more than Rupees 16 lakhs worth of which Japan sent us 21 per cent. Among our other suppliers are Germany, Sweden and the U.K. We have a local industry manufacturing this article and also an export trade

#### (c) *Soda compounds—soda sulphide*

The import of this commodity has been on the whole steady. In 1935-36 we imported Rupees 31½ lakhs worth of this commodity, of which Japan supplied us 15 per cent ; the U.K. sent us 78 per cent The share of the U.K. has increased at the expense of Germany.

### CLOCKS AND WATCHES.

#### (a) *Clocks and timepieces.*

The import of this commodity has been on the whole steady though the share of Japan has been increasing. In 1935-36 we imported more than Rupees 15 lakhs of which Japan supplied about 51 per cent.

Germany and the U.S.A. were our principal suppliers in earlier years. They still continue to send us large quantities. The Indian demand constitutes about 27 per cent of the total Japanese export, and India is the largest single market for Japan in this commodity

### DRUGS AND MEDICINES.

#### *Camphor.*

There have been some fluctuations in the import of camphor during recent years. In 1935-36 we imported more than Rupees 22 lakhs worth of camphor ; of this Japan sent us about 58 per cent. Japan's share was much larger in the years preceding the depression ; it fell considerably thereafter. But more recently it gradually recovered though it has not yet reached its former level. Germany is the other supplier which sent us 37 per cent in 1935-36. The principal buyers of the Japanese product are the U.S.A. which took 37 per cent in 1934 and India which took 27 per cent in the same year, of the total exports of Japan. We have a local industry about which we do not have the necessary data. In certain years there has been an export trade, which is, however, liable to considerable fluctuations.

### DYEING AND TANNING SUBSTANCES.

#### *Aniline Dye*

There has been some increase in the import of this commodity both in the total and in the share of Japan. In 1935-36 we imported about Rupees 29 lakhs worth, of which Japan sent us more than 4 per cent. Our

principal supplier is Germany which sends 66 per cent of our requirement, the U K. coming next in order with 13 per cent. It may be noted however, that from an insignificant position Japan has developed its trade to 4 per cent in recent years.

### EARTHENWARE AND PORCELAIN.

#### (a) *Earthenware*

There has been a fall in the import of this article though the share of Japan has been on the whole steady. In 1935-36 we imported Rupees 19 lakhs worth of which Japan sent us 17 per cent. Our chief source of supply is the U.K. which sent us more than 67 per cent in 1935-36.

#### (b) *Porcelain—Electrical*

In 1935-36 we imported Rupees one lakh seventy thousand worth of this commodity, of which Japan sent us about 36 per cent. The U.K. and Germany are the other sources of supply for us.

#### (c) *Porcelain.—Other kinds.*

There has been a steady increase in the import of this article in recent years though we have not yet reached the predepression level. Japan has a practical monopoly of the supply of this commodity to us. It sent us more than 88 per cent of our requirements in 1935-36. The Indian demand constituted a little more than 7 per cent in 1934 of the Japanese export ; the largest market for Japan in this commodity being the U.S A. which took 34 per cent of her export in 1934. We have a local industry in this commodity about

which data are not available. The export trade in this commodity has been less than a lakh of rupees.

#### FISH—DRY, UNSALTED.

The import of fish has been falling in recent years. It was nearly Rupees two lakhs worth in former years ; in 1935-36 it was only 92 thousand rupees. The share of Japan has been steadily increasing ; it sent us more than 55 per cent in 1935-36. In spite of this, it may be noted that the Indian demand forms an insignificant portion of the Japanese export which depends on various other markets for this trade.

#### FURNITURE OF MATERIALS OTHER THAN WOOD.

There have been some fluctuations in the import of this article as also in the share of Japan. In 1935-36 we imported more than Rupees 12 lakhs worth of which Japan sent us 46 per cent. The U K. was our chief supplier and sent us 80 per cent in 1935-36.

#### GLASS AND GLASSWARE.

##### (a) *Bangles.*

The imports of bangles have been falling in recent years. They amounted to nearly a crore of rupees in former years. In 1935-36 they were Rupees 27 lakhs worth. The share of Japan has however increased. In 1935-36 Japan sent us 50 per cent of our requirement. The increase of Japanese trade has been at the expense of Czechoslovakia which still sends us large quantities. We got more than 42 per cent from that country in 1935-36. India is the principal market for the Japanese

article, because we take more than 90 per cent of her export.

(b) *Beads and false pearls.*

The import of this article has been falling though the share of Japan has been on the whole steady. In 1935-36 we took more than Rupees 15 lakhs worth of which Japan sent us 34 per cent Czechoslovakia and Italy sent us in the same year 36 and 15 per cent respectively. In former years the export in this commodity from Japan to India was much larger and fell to 27 per cent in 1934. India is the largest single market for the Japanese product.

(c) *Bottles and Phials—Soda water bottles.*

The import of this article has fallen, but the share of Japan has increased. We imported Rupees 8 lakhs worth in 1935-36 of which Japan sent us nearly 28 per cent. The U.K. and Germany are our other suppliers.

(d) *Bottles and Phials—others.*

The import of this commodity has been on the whole steady, though the share of Japan has increased. We imported Rupees 22 lakhs worth in 1935-36, of which Japan sent us 61 per cent We import some quantities from Japan and Germany. India is the largest single market for Japan ; we took more than 28 per cent of her export in 1934.

(e) *Funnels, globes and glass parts of lamps,*

The import of this article has fallen considerably, though the share of Japan has increased. We imported about Rs. 6 lakhs worth in 1935-36, of which Japan

sent us 22 per cent. We imported 45 per cent of our requirement from Germany in the same year.

(f) *Sheet and plate.*

The import of this article has fallen, but the share of Japan has increased considerably. We imported Rupees 24 lakhs worth in 1935-36 of which Japan sent more than 21 per cent. A few years ago her share in our trade was insignificant. Belgium sends the largest quantity to us, the U.K. coming third in order. The Indian demand has been 50 per cent or more of the Japanese export in recent years.

(g) *Tableware, (Including decanters, etc.)*

The import of this article has gone down, though the share of Japan has gone up. We imported Rupees 4½ lakhs worth in 1935-36 of which Japan sent us 82 per cent. India took 21 per cent of the Japanese export in 1934 and is her largest single market.

GLUE.

The import of this article has been fluctuating. We took Rupees 4·7 lakhs in 1935-36, of which Japan sent 19 per cent. We take large quantities from the U.K. and Belgium. The Indian demand was 26 per cent of the Japanese export in 1934.

HARDWARE. (EXCLUDING CUTLERY AND ELECTRO-PLATED WARE.)

(a) *Domestic Hardware.*

The import of this article is less than that in the pre-depression period, though the share of Japan has

increased considerably in recent years. We imported Rupees 98 lakhs in 1935-36, of which Japan sent 15 per cent. We depend on the U.K. and Germany for most of our other supplies.

(b) *Enamelled ironware*

The import of this article has slightly fallen. We imported Rupees 19 lakhs worth in 1935-36, of which Japan sent 58 per cent. The other principal supplier is Czechoslovakia. The Indian demand was 12 per cent of the Japanese export in 1934.

(c) *Lamps, metal.*

We imported about Rupees 54 lakhs worth of this article in 1935-36. Our chief source of supply is Germany; the U.S.A. comes next in order. Japan had an insignificant place in our trade, but has tried to obtain a footing in recent years. In 1935-36 she sent us more than 2 per cent.

### INSTRUMENTS, APPARATUS AND APPLIANCES.

(a) *Electric wires and cables.—Bare copper wires.*

The import of this article shows fluctuations. In 1935-36 we imported about Rupees 11 lakhs worth. Japan has increased her share considerably in recent years. In 1935-36 she supplied 42 per cent of our requirement; the U.K. sent 45 per cent in the same year.

(b) *Electric wires and cables :—Rubber insulated.*

The import of this article shows fluctuations; but Japan has increased her share in recent years. We imported Rupees 29 lakhs worth in 1935-36, of which Japan sent more than 5 per cent; whereas in former

years, her position was insignificant. We depend on the U.K. for our supply, and to some extent on Germany.

(c) *Electric Lamps*

The import of this article shows a steady increase. We took Rupees 51 lakhs worth in 1935-36, of which Japan sent us nearly 12 per cent. Japan's share shows a steady increase. The U.K. is our principal supplier ; though other countries like the Netherlands, the U.S.A. and Germany are also in the field.

(d) *Parts and accessories of electric lamps.*

We imported Rupees 12 lakhs worth of this article in 1935-36, of which Japan sent 9 per cent. Germany and the U.S.A. are our principal suppliers.

(e) *Electrical goods and apparatus not enumerated.*

The import of this article is liable to fluctuations. We imported Rupees 35 lakhs worth in 1935-36. Our principal sources of supply are the U.K., Germany and the U.S.A. Japan sent us 3.5 per cent.

(f) *Optical instruments and apparatus.*

The import of this article shows some increase. The share of Japan has increased considerably. In 1935-36 we imported more than Rupees 8 lakhs worth of which Japan sent us 64 per cent. The expansion of Japan's trade has been at the expense of Germany, from where we got only 20 per cent in 1935-36. The U.K. has also suffered to some extent by the Japanese expansion. India took 24 per cent of the Japanese export in 1934, and is the largest single market for the Japanese product.

## LIQUORS : ALE, BEER AND PORTER.

The imports of these commodities have somewhat fallen since the depression though the share of Japan shows an increase. We imported Rupees 78 lakhs worth in 1935-36 of which Japan sent about 8 per cent. The U.K. sent us more than 60 per cent and Germany 15 per cent. India takes about 10 per cent of the total Japanese export.

MACHINERY AND MILLWORK. COTTON WEAVING  
MACHINERY.

The import of this commodity shows some decline in recent years though the share of Japan has grown to some extent. We imported Rupees 57 lakhs worth in 1935-36 of which Japan sent us 4 per cent. Japan had an insignificant share in our trade in former years. We depend chiefly on the U.K. for our supply. We received about 87 per cent of our supply from the U.K. in 1935-36. It may be noted that from the point of view of Japan, India forms the second largest market next to China. We took 18 per cent of her export in 1934.

## MATCHES.

In view of the growth of the Indian industry, the total import of matches has fallen considerably. We import only a few special varieties, the value of which in 1935-36 amounted to one lakh of rupees. Japan sent us 7 per cent of this and Sweden 63 per cent.

## MATS AND MATTINGS. (EXCEPT COIR AND RUBBER).

The import of this commodity shows some increase.

The share of Japan has also increased considerably. In 1935-36 we imported Rupees 58 lakhs worth, out of which Japan sent us about 82 per cent. We have a flourishing local industry in this commodity. The figures of production are, however, not available ; the export trade, however, indicates the strength of the industry.

### METALS AND ORES.

#### (a) *Aluminium.*

The import of this commodity has fallen considerably. The share of Japan in our trade which was insignificant a few years ago has however grown considerably. We imported Rupees 45 lakhs worth in 1935-36, of which Japan sent us more than 25 per cent. The U.K. retains her position in the Indian market and sent 33 per cent in 1935-36. Germany occupied a low position, but her share has increased in recent years to 33 per cent. The U.S.A. which used to supply us large quantities is gradually going off the Indian market. The Indian demand constitutes about 70 per cent of the Japanese export.

#### (b) *Brass, bronze, wrought—mixed or yellow metal for sheathing.*

The import shows a decline to some extent in recent years. The share of Japan shows some increase. In 1935-36 we imported more than Rupees 1 crore worth of this commodity, of which Japan sent us 28 per cent. Germany and the U.K. are our other principal suppliers.

#### (c) *Brass, bronze wrought—Rods*

There is some increase in the import of this com-

modity and also in the share of Japan. We imported Rupees 5½ lakhs worth in 1935-36 of which Japan sent us 59 per cent. The U.K. is our other chief supplier. India took 54 per cent of the Japanese export in 1934, and forms her largest single market.

(d) *Brass, bronze, wrought—wire.*

The import of this commodity shows some decline though the share of Japan has increased. We imported more than Rupees two lakhs worth in 1935-36 of which Japan sent us 77 per cent. India took 38 per cent of the Japanese export ; China also took about an equal quantity.

(e) *Copper wrought*

There has been some decline in the total import of this commodity, though the share of Japan shows some increase. We imported more than Rupees 1 crore worth in 1935-36 of which Japan sent us 13 per cent. Germany, the U.K., and the U.S A. are our other principal suppliers. Some of the other countries which used to send us some quantities in earlier years are going off the Indian market. The Indian demand constituted 38 per cent of the Japanese export in 1934.

(f) *Iron or steel—pipes and fittings, cast.*

The import of this commodity has gone down considerably in recent years. Japan did not send us any supply in earlier times ; she has acquired a footing in the Indian market only recently. Belgium which was an important supplier is going out of the market. In 1935-36 we took about Rupees 7 lakhs worth out of

which the U.K. supplied 94 per cent and Japan about 2 per cent.

(g) *Iron or steel—wood screws.*

The import of this commodity fell considerably since the depression, though in recent years there is an upward tendency. Japan has entered the Indian market only recently. In 1935-36 we imported more than Rupees 10 lakhs worth out of which 10 per cent was supplied by Japan. The Continental European countries which supplied us large quantities before, have suffered in the Indian market. The U.K. sent us 28 per cent in 1935-36.

(h) *Iron and steel—sheets and plates*

There has been a great fall in the import of this commodity. In the years preceding the depression the import was Rupees 10 crores in some years. In 1935-36 we imported only Rupees 2 crores worth of this commodity. Japan has entered the field only recently and supplied 6 per cent of our requirement in 1935-36, the U.K. supplying 79 per cent.

(i) *Iron and steel, tubes, pipes and fittings wrought.*

The import of this commodity shows some fluctuations. We imported more than Rupees 1 crore worth in 1935-36, of which Japan sent more than 4 per cent. Japan has obtained a footing in the Indian market only in recent years. The U.K. and Germany are our principal suppliers.

(j) *Iron and steel—wire nails.*

The import of this commodity shows some decline though Japan which entered the market only in recent

years shows remarkable progress. We imported about Rupees 22 lakhs worth in 1935-36 of which Japan sent us about 33 per cent ; Belgium sent us about 45 per cent.

### OILS.

#### (a) *Essential.*

There has been some increase in the import of this article. We imported more than Rupees 15 lakhs worth in 1935-36, out of which Japan sent about 5 per cent. The share of Japan was larger in former years and shows a decline. The U K and other European countries sent us large quantities.

#### (b) *Fish oil.*

The import of this commodity shows considerable fluctuations. In 1935-36 we imported Rupees 3·8 lakhs of which Japan sent us 55 per cent. There is an increase in the share of Japan chiefly at the expense of that of the U.K. which sent us 21 per cent in 1935-36.

### PAINTS AND COLOURS.

#### (a) *Red lead, genuine dry*

We imported only Rupees 5 lakhs worth of this article in 1935-36, which shows some decline compared with preceding years. Japan sent us 59 per cent, and the U.K. 33 per cent. India took more than 35 per cent of the Japanese product in 1934, and is the largest single market for her.

#### (b) *White lead, genuine dry.*

The import of this commodity shows some decline. We imported only 2½ lakhs worth in 1935-36. Japan

has acquired a footing in the Indian market only in recent years. She sent about 11 per cent of our requirements in 1935-36. The U.K. sent us 71 per cent.

(c) *White lead—genuine moist.*

The import of this commodity has fallen considerably. We imported only Rupees 66,000 worth in 1935-36, of which Japan sent us about 2 per cent. We depend mainly on the U.K. for this article.

(d) *Zinc white, genuine moist*

There is some decline in the total import of this commodity, though the share of Japan from an insignificant place has risen considerably. We imported Rupees 7.6 lakhs worth in 1935-36 of which Japan sent us nearly 30 per cent. The remaining supply came from the U.K.

(e) *Varnish.*

The total import of this commodity shows some decline, though Japan has acquired a footing in recent years in the Indian market. We imported about Rupees 12 lakhs worth in 1935-36, of which Japan sent us 7 per cent, the U.K. being our principal supplier.

PAPER AND PASTEBOARD.

(a) *Printing.*

The import of this commodity shows some fluctuations. In 1935-36 we imported Rupees 96 lakhs worth. The chief supplier is Norway; the U.K. and Austria also send us some quantities. Japan had quite an insignificant position in this trade in former years. In 1935-36 she sent us about 2 per cent.

(b) *Paper manufactures.*

In spite of minor fluctuations the trade in this commodity has been on the whole steady. In 1935-36 we imported more than Rupees 15 lakhs worth of which Japan sent us 9 per cent. Our principal supplier is the U.K.

(c) *Strawboards.*

We imported about Rupees 13 lakhs worth of this commodity in 1935-36, of which Japan sent us 56 per cent. The Netherlands sent us about 40 per cent. India took 36 per cent of the Japanese export in 1934, and is the largest single market in Japan in this commodity.

## PROVISIONS AND OILMAN'S STORES.

(a) *Confectionery*

The import of this article has been on the whole steady. In 1935-36, we imported more than Rupees 21 lakhs worth, of which Japan sent us 6 per cent. We depend chiefly on the U.K. for our supply. The Indian demand was about 6 per cent of the Japanese export in 1934. We have a local industry in this article, and some export. It may be mentioned that this refers chiefly to European confectionery.

(b) *Ismglass.*

The import shows some decline ; we imported Rs. 83,000 worth in 1935-36. Japan sent us 82 per cent. The Indian demand is only 2 per cent of the Japanese export.

*Rubber manufactures.*

The imports are somewhat lower than those in the

pre-depression period. We imported Rupees 2 crores worth in 1935-36, of which Japan sent us 5 per cent. We get our chief supply from the U.K. which sent us 71 per cent in 1935-36. The U.S.A. and Germany also send us some quantities. The share of the U.S.A. has fallen and that of the U.K. has risen. The Indian demand was more than 15 per cent of the Japanese export in 1934.

#### SOAP.

##### (a) *Household and Laundry Soap.*

The import of this article has gone down considerably. We imported about Rupees 3 lakhs worth in 1935-36. Japan has obtained some footing in the Indian market in recent years and sent us 13 per cent of our total imports in 1935-36. The U.K. is our principal supplier. The Indian demand was 24 per cent of the Japanese export in 1934.

##### (b) *Toilet Soap.*

The import of this article shows some decline. In 1935-36, we imported Rupees 29.6 lakhs worth. Japan has entered the Indian market in recent years. She supplied 36 per cent in 1935-36. The U.K. sent us 80 per cent in the same year. We took 8.5 per cent of the Japanese export in 1934.

#### SPICES :—GINGER.

The trade in this article has grown considerably. From small quantities it has increased to Rupees two lakhs in recent years. In 1935-36 our imports were worth Rupees 23 lakhs. Japan has had a practical monopoly of supply to us ; though in 1935-36 her share

was reduced to 75 per cent. We took 46 per cent of the Japanese export in 1934.

#### STATIONERY :—PENCILS (EXCLUDING SLATE PENCILS.)

There is a rise in the import of this article. In 1935-36 we imported more than Rupees 10 lakhs worth of which Japan sent us 13 per cent. The share of Japan has gone down to some extent. Germany sent us 69 per cent and the U.K. 15 per cent the same year. The Indian demand was an important proportion of the Japanese export till recently ; it was only 5 per cent in 1934.

#### SUGAR CANDY.

The import has risen considerably in recent years. We imported Rupees 4 lakhs worth in 1935-36, of which Japan sent us 21 per cent. The Indian demand was 20 per cent of the Japanese export in 1934.

#### TEA-CHESTS OF WOOD, ENTIRE OR IN SECTIONS.

Though subject to some fluctuations, the import of this article has been on the whole steady. We imported Rupees 53 lakhs worth in 1935-36, of which Japan's share was only 1 per cent. We got 70 per cent from the U.K. The Indian demand was 12 per cent of the Japanese export in 1924. We took more from Japan in the preceding years.

#### TOILET REQUISITES, ETC.

The import of this article has grown, as also the share of Japan. We imported Rupees 66 lakhs worth in 1935-36, of which Japan sent us 15 per cent. The

U.K. and the U.S.A. are our chief suppliers. The Indian demand was 12 per cent of the Japanese export in 1934.

#### TOYS AND REQUISITES FOR GAMES

##### (a) *Playing Cards.*

The import of this article shows some decline ; the share of Japan shows a considerable increase. We imported Rupees 8 lakhs worth in 1935-36 of which Japan sent about 42 per cent. India is the largest single market for Japan ; we took 61 per cent of her export in 1934.

##### (b) *Toys*

The import shows some decline ; but Japan's share has increased. We imported Rupees 29 lakhs worth in 1935-36 of which Japan sent 76 per cent. The Indian demand was about 12 per cent of the Japanese export in 1934. We have a local industry and some export trade.

#### UMBRELLAS AND UMBRELLA FITTINGS.

##### (a) *Umbrellas, complete, including parasols and sunshades.*

The import has fallen considerably ; but the share of Japan has increased very much in recent years. We imported Rupees 17 lakhs worth in 1935-36, of which Japan sent 45 per cent. The U.K. sent us 38 per cent in the same year. The Indian demand was 6 per cent of the Japanese export in 1934. We have a local industry and some export trade in this article.

##### (b) *Umbrella fittings.*

There is some fall in the import of this article.

We imported Rupees 27 lakhs worth in 1935-36, of which Japan sent us 63 per cent. Germany sent us 26 per cent in the same year. The Indian demand was 72 per cent of the Japanese export in 1934.

### VEHICLES.

#### (a) *Carriages and carts not mechanically propelled.*

There is a fall in the import of this article and also in the share of Japan. We imported only Rupees 2 lakhs worth in 1935-36 of which Japan sent 21 per cent.

#### (b) *Cycles (other than motor cycles), and parts thereof and accessories.*

After some reduction in the import since the depression, we find that the total import shows some increase in recent years. Japan has also increased her share since the depression in the Indian market. In 1935-36 we imported more than a crore worth of this commodity of which Japan sent us 15 per cent. The U.K. sent us 75 per cent and Germany 7 per cent in the same year. The expansion in the trade of Japan is due to a fall in that of both the U.K. and Germany. The Indian demand constituted about 11 per cent of the Japanese export in 1934.

#### (c) *Mechanically propelled vehicles excluding railway vehicles and tractors.*

After some fluctuations the import of this article is gradually increasing. We imported Rupees 5.6 crores worth in 1935-36. Our principal sources of supply are the U.K., the U.S.A. and Canada. Japan had practically no share in this trade, but is making

# CHAPTER VI

## REVIEW OF TENDENCIES IN TRADE WITH JAPAN.

### TOTAL TRADE.

The following tables give the total import and export trade of India, and the place of Japan therein in recent years.

#### IMPORTS INTO INDIA

(In crores of rupees.)

Year	From all countries	From Japan	Japan's percentage.
1922-23	233	14	6.2
1923-24	228	14	6.1
1924-25	247	17	7.0
1925-26	226	18	8.0
1926-27	231	16	7.1
1927-28	250	18	7.2
1928-29	233	18	7.0
1929-30	241	24	9.8
1930-31	165	15	8.8
1931-32	126	13	10.6
1932-33	133	20	15.4
1933-34	115	16	13.9
1934-35	132	21	15.9
1935-36	134	22	16.4

EXPORTS FROM INDIA  
(In crores of rupees).

Year	To all countries	To Japan	Japan's percentage.
1922-23	299	40	13'4
1923-24	349	50	14'3
1924-25	385	55	14'3
1925-26	376	57	15'2
1926-27	301	41	13'6
1927-28	319	29	9'1
1928-29	330	34	10'3
1929-30	311	32	10'3
1930-31	220	24	10'9
1931-32	156	14	9'0
1932-33	132	14	10'6
1933-34	146	13	8'9
1934-35	152	25	16'4
1935-36	160	22	13'7

### GENERAL FEATURES.

These figures reveal the fact that the volume of trade in either direction has shrunk considerably. If we take the year 1929-30 as the basis of comparison, we find that the imports have gone down from 241 crores to 134 crores and the exports from 311 to 160 crores. The imports from Japan have gone down from 24 to 22 crores, and the exports to Japan have gone down from 32 to 22 crores. It is obvious that the effect of the depression on our total trade is not fully shared by Japan ; that though the trade with Japan did suffer during the years of the depression it has shown a steady revival ; that the fall in the import is now not at all great ; though the fall in the export is still substantial.

From another point of view it appears that though our export trade with Japan has not yet fully recovered, in terms of percentage of our total export our position

has improved. In 1929-30 Japan took 103 per cent of our exports ; in 1935-36, she took 137 per cent of our exports. This shows that relatively with other countries, our export trade with Japan is in a better position. Similarly, though the volume of imports is somewhat less in 1935-36 compared with 1929-30 in terms of percentages Japan has improved her position considerably. Whereas in 1929-30 Japan sent us 98 per cent of our imports, in 1935-36, she sent us 164 per cent. In other words, Japan has succeeded even during the period of depression in improving her relative position with other countries in the Indian market.

#### LEADING ARTICLES OF TRADE

Among the exports from India, raw cotton takes the leading place ; it formed 21.47 per cent of our total export in 1935-36. Among the imports, cotton piecegoods take the leading place ; they formed about 11 per cent of our total imports in 1935-36. Relatively the dominating position of raw cotton in the export trade is much greater than that of cotton piecegoods in the import trade. This means that our export trade in articles other than raw cotton is comparatively of a minor nature ; though the imports from Japan other than cotton piecegoods are both large in variety and in volume.

#### RAW COTTON.

Our dependence on the Japanese market in raw cotton is complete. We are able to consume only 43 per cent of our production of raw cotton. We must export the rest, or reduce production. Our buyers other than

Japan take small quantities ; in 1935-36, Japan took 52 per cent of our export of raw cotton ; the U.K. took 13.5 per cent and the rest was taken by other countries. Added to this situation are the other facts, namely, the want of organisation among Indian growers, their low resisting capacity and their poor purchasing power. These characteristics intensify the dependence of India on one single market in this important commodity. Efforts are being made to increase the markets for Indian raw cotton in other countries ; we need not discuss the various issues involved in this effort ; we shall only note the fact that the only other important country which can take more of Indian cotton, and in which propaganda in its favour is known to be carried on, namely, the U.K. took only a small percentage in 1935-36, and further relief from this quarter is not likely to be substantial in spite of loud talks about the same

### IMPORT ARTICLES.

Among the articles of import, cotton piecegoods take the leading place, but the position of other articles is striking. In order to bring out this fact, we attempt a classification of the more important articles<sup>1</sup> of import from Japan as under :

(a) ARTICLES IN WHICH INDIA DEPENDS FOR  
MORE THAN 50 PER CENT OF HER SUPPLY  
ON JAPAN.

- (1) Silk goods, mixed with other materials
- (2) Wool hosiery.

<sup>1</sup> Cf Other than cotton piecegoods.

- (3) Piecegoods of cotton and artificial silk.
- (4) Cotton, Blankets.
- (5) Cotton, Hosiery.
- (6) Apparel, including drapery and uniforms.
- (7) Hats, caps, bonnets, hatter's ware.
- (8) Tiles.
- (9) Clocks and timepieces.
- (10) Camphor.
- (11) Fish, dry and unsalted.
- (12) Glass bangles.
- (13) Glass bottles and phials.
- (14) Glass tableware.
- (15) Enamelled ironware
- (16) Optical Instruments and apparatus.
- (17) Mats and mattings
- (18) Brass, bronze, wrought—rods.
- (19) Brass, bronze, wrought—wire.
- (20) Fish oil.
- (21) Paints and colours—red lead, genuine dry.
- (22) Paper and Pasteboard—strawboards.
- (23) Isinglass.
- (24) Ginger.
- (25) Toys.
- (26) Umbrella fittings.

(b) ARTICLES IN WHICH INDIA DEPENDS PRACTICALLY FOR HER ENTIRE SUPPLY ON JAPAN.

- (1) Artificial silk—piecegoods.
- (2) Haberdashery and Millinery—towels not in the piece.
- (3) Boots and shoes—rubber soled with canvas uppers.

- (4) Porcelain—miscellaneous kinds.
- (c) ARTICLES IN WHICH INDIA IS THE LARGEST SINGLE MARKET FOR JAPANESE GOODS.
  - (1) Silk, piecegoods.
  - (2) Hosiery—underwear.
  - (3) Haberdashery and Millinery—lace and embroidery.
  - (4) Boots and shoes—all rubber.

Besides these, Japan has obtained a footing in a large number of other articles in the Indian market, the details of which have been given in a preceding chapter. It is obvious that Japan has invaded the Indian market in many spheres ; there is hardly an article of importance in which Japanese goods do not figure ; if they do not dominate the market, the fear of their doing so in future is ever present in the minds of the competitors, because the prices of Japanese goods are invariably lower.

#### COTTON PIECEGOODS.

While Japan is thus increasing her hold on the Indian market in a large variety of articles, her position in the import of cotton piecegoods has been a source of danger to the Indian Cotton Industry in recent years. In spite of the expansion of the Indian industry, the competition of Japan has been felt so keenly due chiefly to lower prices of her goods, that the Indian industry all along complained of the difficulties caused thereby. The position of the Indian Industry has been reviewed by the Tariff Board several times in recent

years, and it has found that though there are other causes of the difficulties in which the Indian Industry is placed, Japanese competition is certainly an important one. Without going into details, we shall mention in brief the changes in the import duty on cotton piecegoods in recent years, imposed on the recommendation of the Tariff Board or decided by the Government of India on account of the pressure of the Indian Industry or introduced because of revenue considerations. This will bring out the way in which efforts have been made to safeguard the Indian Industry against Japanese competition. It may be noted that the success of Japanese goods in India should be viewed in the light of these measures, because they have held the field in spite of such obstacles.

#### IMPORT DUTY ON COTTON PIECEGOODS.

The import duty on cotton piecegoods was raised to 11 per cent in 1921, the excise duty on local production being retained at  $3\frac{1}{2}$  per cent. This was purely a revenue measure to meet the war deficits. This duty continued till 1930. In the meanwhile, the local industry was given some relief by the abolition of the excise duty in 1925.

In April 1930, the duty was raised. For the first time in the history of this duty, a discrimination was made between British goods, and non-British goods, the duty on the former being lower. The duty now imposed was as under :—On plain grey, 15 per cent. ad valorem or  $3\frac{1}{2}$  annas per lb whichever is higher ; on others 15 per cent ad valorem. This rate was to apply to goods

of British manufacture. On goods of non-British manufacture, the duty was to be 20 per cent. ad valorem or  $3\frac{1}{2}$  annas per lb. on plain grey ; and on others 20 per cent ad valorem.

In March 1931, the duties were raised by 5 per cent ; those on British manufacture to 20 and those on non-British manufacture to 25, the specific rate remaining the same. In September of the same year, the duty was further raised to 25 per cent in the case of British goods, and to  $31\frac{1}{4}$  per cent in the case of others ; the rate of the specific duty was raised to  $4\frac{3}{8}$  annas per lb.

In August 1932, the duty on non-British goods was raised to 50 per cent. In June 1933, it was further raised to 75 per cent or  $6\frac{3}{4}$  annas per lb. whichever was higher on plain goods and 75 per cent on others. The duty on British goods remained at 25 per cent as levied in September 1931.

It may be pointed out that though the higher duties were chiefly directed against Japanese goods, it was not possible to discriminate against them specifically because of the existence of the Indo-Japanese Convention. In spite of the 50 per cent duty of 1932, complaints of Japanese dumping continued, and the situation was so acute that it required an urgent remedy. The Government of India at last raised the duties on non-British goods to 75 per cent and gave notice of the termination of the Indo-Japanese Convention. These measures were resented in Japan, with the consequence that the Japan Cotton Spinners' Association declared a boycott of Indian cotton. The boycott was in force for some time, and led to negotiations for a mutual under-

standing. The result of these negotiations was the Indo-Japanese Trade Agreement of 1934, which we shall discuss in greater detail in the following chapter.

The effect of this Agreement on the import duty was the reduction of the duty on non-British goods to 50 per cent in 1934. The detail changes in the duty are given below :—

(1) On cotton fabrics, namely, sateens including Italians of sateen weave, velvets and velveteens and embroidered all over, the duty was 25 per cent, if of British manufacture, and 35 per cent if of non-British manufacture.

(2) On cotton fabrics, not otherwise specified, containing more than 90 per cent. of cotton, the duties were as under :—

(a) Grey piecegoods, (excluding bordered grey chaddars, dhoties, saris and scarves)—25 per cent. ad valorem or  $4\frac{3}{4}$  annas per lb whichever is higher, if of British manufacture ; and 50 per cent ad valorem or  $5\frac{1}{4}$  annas per lb. whichever is higher, if of non-British manufacture.

(b) Cotton piecegoods and fabrics not otherwise specified—25 per cent ad valorem if of British manufacture, and 50 per cent ad valorem if of non-British manufacture.

Due to the pressure from Lancashire, and on the recommendation of the Indian Tariff Board, the duties on British goods of the second category mentioned above were reduced to 20 per cent in June 1936. The details are as under :—

Cotton fabrics, not otherwise specified containing more than 90 per cent of cotton :

(a) grey piecegoods (excluding bordered grey chaddars, dhoties, saris and scarves)—20 per cent ad valorem or  $3\frac{1}{2}$  annas per lb whichever is higher, if of British manufacture.

(b) cotton piecegoods and fabrics (excluding printed cotton piecegoods and printed fabrics)—20 per cent ad valorem if of British manufacture

The duties on goods of non-British manufacture remained at 50 per cent as fixed in 1934

## CHAPTER VII

### JAPANESE COMPETITION.

#### THE NATURE OF THE PROBLEM.

The sudden growth of Japanese industries and trade and the successful way in which Japanese goods have penetrated into different markets of the world in competition with long established industries of western countries has been a remarkable feature in the economic history of the world during recent years. It has been a baffling problem to industrialists and businessmen on the one hand, and to economists and statesmen on the other, as to how Japan is able to overcome difficulties of want of raw materials, of great distances, and above all of high tariff walls in marketing her goods in different parts of the world. The menace of Japanese competition has been a night-mare to many countries which have been forced to take special measures to protect their interests. Whereas this is generally true of countries industrially advanced the intensity of Japanese competition in the case of countries which are relatively backward has been obviously greater.

Out of our total imports Japan sends about 16 per cent. From the point of view of Japan, India is her largest single market. Though the leading place in our import trade is occupied by British goods, and the share of Japan seems to be relatively small, yet the incredible cheapness and variety of Japanese goods have

enabled them to displace British goods in the Indian market. This has naturally created an uproar amongst vested interests, chiefly British and Indian. The onslaught of Japanese competition is feared because it is taking place in almost all varieties of goods, though it is greater in a few products in which Japan has specialised such as textile goods, rubber manufactures, bicycles, etc. The effect of this situation has been felt all the greater, because it has developed at a time when the world has been passing through the most severe economic depression in its history, which has reduced considerably the power of resistance of those concerned. During and since the War when the more important countries of the world have been in difficulties, Japan has developed her industries in many directions and has made a feverish attempt to export more and more. It is said that the Japanese are "Export Conscious" so much so that the figures of exports from Japan which are published thrice a month are anxiously watched by all concerned in Japan, and any decrease in exports is immediately followed by systematic steps to make good the loss. Taking 1914 as the base, Japanese exports rose to 254 in 1928 and 555 in 1934.

#### JAPAN'S NEED FOR EXPORTS.

The explanation of this unusual activity for larger exports is to be found in the peculiar economic position of Japan. Japan has a large population for her small area and its already large population is increasing at a rapid rate. She is not able to grow sufficient quantities of foodstuffs to feed her growing population. Nor has

she got the raw materials necessary for modern industries. At the same time the Japanese have acquired a remarkable capacity for organising industries, and they have realised that in order to obtain adequate quantities of foodstuffs and raw materials required by them in increasing quantities they should export larger quantities of manufactured goods. The acquisition and maintenance of stable export markets is thus essential for the very existence of Japan. This peculiarity is considered a great weakness in the economic organisation of Japan, because it makes her dependent on the policies of other countries. The Japanese Government encourages the development of export markets by all possible means, and the Japanese traders are willing to sell their goods abroad for negligible profits. Sometimes the difference between the price of raw materials and that of the perfectly finished manufactured commodity is so little, that it excites the admiration and envy of people in other countries. In other words, whereas most industrial countries try to sell their goods abroad for a reasonable profit, Japan tries to do so to satisfy its increasing hunger for foodstuffs and raw materials, and therefore at phenomenally low prices.

#### EXTENT AND MAGNITUDE OF JAPANESE COMPETITION IN INDIA.

It is well known that Japanese goods have penetrated not only in the bigger cities but even in the remote villages of India. Japan has taken advantage not only of our industrial backwardness, but also of our low purchasing power. Realising that the capacity of

the average consumer in India to buy goods is limited, she sells her goods not only in an attractive form, but also at a rate suited to the pockets of the consumers in this country. Though it is not possible to make an exact estimate of the extent of Japanese competition in India or its effects, we may attempt a brief analysis with a view to trace major tendencies.

Japanese competition may have led to three different tendencies : (a) Sale of Japanese goods by displacing other goods ; Indian or foreign (b) Sale of Japanese goods without competition with higher priced similar goods ; Indian or foreign. (c) Sale of Japanese goods by stimulating new demands in the country.

From the statistics given in the chapter on cotton and cotton piecegoods, it is obvious that Japanese goods have taken the field by displacing either British or Indian goods. Indian production has increased considerably since the War ; to a certain extent the demand has also increased in the interval. Though it appears from the figures of trade that the Japanese goods have chiefly affected British goods in the Indian market, it is possible to show on a detailed study of the different types of goods sent to us that the competition has also affected the progress of Indian goods to some extent.

Statistics show that Japanese imports of glass and glassware, silk goods, optical instruments, clocks and watches have increased in recent years. Local industries for the manufacture of these goods in India are yet in their infancy. Japanese goods must have therefore displaced other foreign supplies so far as these articles are concerned.

In the case of certain other articles, we observe a different tendency. We import from Japan musical instruments, machinery and mill work, textile machinery and belting, bobbins, paper and pasteboard, stationery, cycles, chemicals, electric bulbs, rubber manufactures and so on. In the production of these articles, except paper, Indian production is either non-existent or in its infancy. We depend for these products on foreign supplies. It has been found, however, that the goods supplied by other countries are priced higher and are of a special type. Japanese goods have tried to displace these. They have appealed to Indian buyers with smaller resources.

There are cases in which Japanese imports have adversely affected Indian production. For example, boots and shoes ; hosiery, umbrellas, buttons, tiles, toys, toilet requisites and other fancy goods are imported from Japan in large quantities. These articles are produced in India, but are invariably sold at a price higher than the price of the corresponding Japanese products. The apparently better finish of the Japanese article, and a somewhat lower price are features in favour of Japan. Partly due to the general awakening in the country, and partly to the desire to use swadeshi goods, a large number of small industries have come into existence in India in recent years. They are not well organised ; their equipment is poor and organisation weak. They flourish mainly on the patriotic sentiment of the people fostered by swadeshi propaganda. While this impetus may work for some time, it cannot be depended upon forever. Those in charge of these indus-

tries should organise themselves more efficiently and try to reduce their costs. At the same time the state should give them adequate help so that they may not be crushed in their infancy.

### CAUSES OF JAPANESE SUCCESS.

#### *Depreciation of the Yen.*

In recent years, the Yen has depreciated considerably and this is said to have helped Japanese exports. It must be noted, however, that Japan has to import raw materials and foodstuffs and the depreciated Yen acts as a handicap in doing so. The advantage of the depreciated Yen is also likely to be neutralised by the rise of internal prices and of the cost of production. Japan has, however, minimised this disadvantage. This is so because the internal price level has not risen in proportion to the depreciation of the Yen, and also because Japan imported a large amount of raw materials chiefly cotton, in anticipation of the flight of the Yen from gold.

During 1931 to 1935, the Yen depreciated by 60 per cent while the dollar and the sterling by 41 and 35 per cent respectively. The total export trade which was 1146 million Yen in 1931, amounted to 2499 million in 1935, an increase of more than 100 per cent. The production in Japan, particularly in the textile industries, increased by more than 50 per cent during this period.

Though the depreciation of the Yen may not by itself account for the increase of Japan's exports, it is obvious that it has been an important cause. Besides

it should be noted that the depreciation persisted at a time when the internal level of cost did not justify it. In the words of the ex-Finance Minister of Japan, Mr. Takahashi, "while in western countries the effect of currency depreciation was of negative nature consisting as it did in relieving the burden of depression, in Japan it was a positive one almost wholly serving to consolidate her competitive power in economic sphere."<sup>1</sup>

### LABOUR CONDITIONS IN JAPAN

It has been alleged by the industrialists in this country as well as those elsewhere that the most important reason why Japan is able to offer its goods at a low price is the inferior labour conditions in that country. We shall study this point with special reference to the cotton industry for two main reasons. Firstly because our imports of cotton goods from Japan are the major portion of our total imports from that country, and secondly, because it is the cotton textile industry that has suffered—at least this is pleaded on its behalf, chiefly from the "unfair" advantages that the Japanese industry is supposed to possess in respect of its labour. In this connection it is interesting to remember that the Indian cotton textile industry got protection for the first time in 1927 on the ground of inferior labour conditions in Japan, and the consequent "unfair" advantages enjoyed by the Japanese industry.<sup>2</sup>

<sup>1</sup> *Factors in Japan's recent industrial development* by Takahashi, p. 6.

<sup>2</sup> See Report of the Tariff Board (Cotton Textile Industry Enquiry) 1926-27, also Pearse: *The Cotton Industry of India*, p. 4.

To one who has not been to Japan and seen the conditions in Japanese factories, it is extremely difficult to understand the real conditions of labour in that country. We get divergent accounts of the conditions from persons who have been there. The International Labour Office has recently published a volume dealing with the labour conditions in Japan<sup>1</sup>. Even in this case we are not told how that survey was compiled, whether the information was obtained through the Japanese employers or the labour leaders or through the Government of Japan. In the absence of a more reliable account we shall have to treat this as the most authoritative source of information regarding labour conditions in Japan.

Before the Great War the conditions of labour in Japan were much worse than what they are at present.<sup>2</sup> The labourers were not organized and the force of international opinion and criticism in their favour did not exist. The Japanese industrialists could therefore have long hours of work with low wages. Hence their labour costs were very low, and in addition to other factors this helped Japanese industry. Since the War however, the labour conditions have improved considerably mainly due to three factors.

(a) The establishment of the International Labour Office and the meetings of International Labour Conferences have greatly influenced the Government of Japan, and it has therefore passed legis-

<sup>1</sup> See *Industrial Labour in Japan*, Geneva, 1933.

<sup>2</sup> See Ueyehara *The Industry and Trade of Japan* p. 34.

lation directed to improve the conditions of life and labour in factories.<sup>1</sup>

(b) Besides the pressure from external sources labour in Japan has become vocal to some extent though, even now, as we shall see later, it is not well organized. It is gradually becoming conscious of its rights and trying to assert them.<sup>2</sup>

(c) The Japanese employers have also realized that it pays to have a contented labour force, and hence have taken steps to improve the conditions of labour in certain directions.

As a result of the operation of these forces the conditions of labour in Japan have considerably improved during the post-war period.<sup>3</sup>

<sup>1</sup> See Asa Matsuoka · *Labour conditions of women and children in Japan*. p 2. Cf "In no country, perhaps, have such striking developments taken place in recent years in labour legislation and industrial conditions generally as in Japan. The beginning of this period of development coincided more or less with the creation in 1919 of the International Labour Organization. Since that date there has been marked progress in Japanese social legislation and in the betterment of general conditions of work" International Labour Office · *Op cit.*, Prefatory Note.

<sup>2</sup> Scott : *The Foundations of Japan*, p 88

<sup>3</sup> Cf. "There has been very great improvements of recent years in the conditions in the textile mills of Japan, and it is important to emphasize this because so many people still imagine that the conditions which prevailed ten to fifteen years ago hold good today. The change has partly been brought about by humanitarian considerations, but chiefly because the mills have found it increasingly difficult to get the necessary labour, and girls refused to come to mills where conditions were bad" Crowe and Sansom · *Report on Japan* published by the Department of Overseas Trade London 1933. p 20.

## HOURS OF WORK

The first International Labour Conference passed a convention limiting the hours of work, but the Government of Japan has not yet ratified it as it, felt that such a step would jeopardize the Japanese industries. Hence we find that there is at present no legal limitation of the hours of work except in the case of women and "young persons" under sixteen years of age, whose hours of work shall not exceed eleven including an interval of one hour. Though there is no legal limitation, we find that the actual hours of work were a little more than ten in 1928. Since then they have been further reduced and are about  $9\frac{1}{2}$  hours. This fall has been due to the abolition of night work in cotton factories since July 1, 1929. It is interesting to note that there is yet no strong demand on the part of the Japanese labour for a still further reduction in the hours of work, mainly because of their general poverty and the necessity of earning more wages even by working for longer hours.<sup>1</sup> There are cases when they have opposed any reduction in the hours of work or increase in the rest days.<sup>2</sup> Consequently there is a legal provision for the hours of work in the case of women and young workers only, and even in their case the competent Minister of State can extend them by not more than two for a period of twelve years from July 1st, 1929.<sup>3</sup>

<sup>1</sup> See Harada *Labour Conditions in Japan*, Pages 168-70

<sup>2</sup> Vide International Labour Office Report, Op. cit., p. 57.

<sup>3</sup> Cf. Report of the Indian Tariff Board Cotton Textile Industry. (1926-27) Vol I, p. 56.

Though in respect of hours of labour there is not much difference in India and Japan, except when the Japanese factories get special extension, we must remember that the output of the Japanese labour is greater per hour than that in India because the efficiency of the Japanese labourer is greater than that of the Indian labourer. This may be partly because he is better housed, better fed and has better training, and partly because the machinery and capital equipment with which he has to work is better organised.<sup>1</sup>

### REST DAYS.

Unlike India there is no provision of a weekly rest day in Japan. The Washington Hours Convention required Japan to have a weekly rest day, but the Government of Japan has not yet ratified the convention. Only in the case of women and "young persons" does the law prescribe at least two rest days per month. Though there is no legal provision we find that in the textile industry the days worked do not usually exceed

<sup>1</sup> Cf "In the big mills labour has been rendered far more intense of recent years, while the hours have been shortened. The net result has been a cheapening of labour cost. In the mill enterprises which have insufficient capital to institute mass production methods and speeding up on better machinery with better arranged work, labour continues to work very long hours but is less productive. In fact the big spinning and weaving mills have become in comparison with the general level of East and the rest of Japan, the Fords of the East, and their labour cost, in spite of improved conditions in dormitories, better food and so forth is astonishingly low. All this does not imply that labour conditions in even the model factories are ideal, only that work is so arranged as to extract the utmost possible labour from the operatives with minimum amount of wastage during the years spent in the factory...." Utley, *Op. cit.* p. 140.

27 in a month. During 1930, especially in the cotton spinning mills, more factories granted weekly rest, for on account of the severe trade depression in that year, the cotton Spinning Association found it necessary to curtail the output and this was done by granting a weekly rest day.

### NIGHT WORK.

The Japanese factories are worked also at night. Only recently a law was passed which prohibits the employment of women and young persons from 10 p.m. to 5 a.m. The employers can, however, obtain special permits to employ these workers till 11 p.m. and we are told that almost the whole of the cotton spinning industry has secured the necessary permission.

### DOUBLE SHIFTS.

The Japanese cotton industry gets an advantage over the Indian industry by working double shifts. It is thereby able to reduce its costs per unit as the overhead charges are proportionately less. Again the machinery is fully exploited, and hence it can afford to scrap old machinery and install the latest and most efficient machinery much earlier than can be done in this country. The expenses on account of supervision, management and other items are also proportionately less. By working double shifts the Japanese industry gains appreciably in various directions, and has therefore an advantage over the Indian industry. The Tariff Board (1926-27) recognised this but it opined that it was not desirable that the Indian industry—especially the Bom-

bay Section of it—should also do the same in order to get over that advantage

When the Tariff Board reported, the problem of housing the labour—especially in Bombay—was rather acute, and the Board feared that if the industry were to work double shifts that problem would be still more difficult. That was the only consideration which led them to express an opinion against working double shifts. The conditions have, however, changed to some extent since then and double shifts are now occasionally in operation in Bombay mills.

#### FEMALE LABOUR AND LABOUR TURNOVER.

Nearly eighty per cent of the labour in Japanese cotton factories consists of young peasant girls. The Japanese peasantry is very poor and hence these girls have to seek employment in factories so as to add to the scanty resources of their parents. But on account of the long hours of labour, their restricted freedom in the dormitories and other hardships, they leave the factory in a short time, and hence the labour turnover is large. We are told by some writers that these girls come to factories to earn sufficient for their marriage, and hence leave them when they have accumulated the necessary amount. This does not appear to be true.<sup>1</sup>

<sup>1</sup> See Orchard *Op cit*, p. 345, also cf. "The labour in the Japanese cotton industry is mostly female. It is no explanation to say that the girls go to the mills for a few years to amass a dowry. The basic reason is poverty. The same grinding poverty which makes the Japanese father sell his daughter to the brothel of Yoshiwara or the other licensed quarters, forces him to sell his daughter to the factory" Utley. *Lancashire and the Far East*, p. 109.

They come mainly because of their poverty and go back to their village homes as the conditions of labour are not congenial for a longer stay. The large turnover of labour reacts adversely on its efficiency<sup>1</sup>. The predominance of the female labour and the large turnover has however helped the Japanese industrialists in other directions, as in addition to other factors, it has prevented the development of a strong trade union movement, and thereby provided them with a more or less subservient labour supply. We may note that the employment of women operatives in cotton factories is not a peculiarity of Japan, and hence we cannot find fault with her on that account. In fact even in western countries the cotton textile labour is predominantly female. It is only in India on account of social customs and traditions that a small number of women is employed. It has been calculated that in this country only twenty per cent of the total cotton labour is female, about 4 per cent children and the rest is male<sup>2</sup>.

### WAGES

The wages in Japan are low but we must remember that the cost of living is also low and in spite of the low wages a working class family is able to effect small

<sup>1</sup> See Harada . Op. cit., p 118 , " It is the custom in Japan for women workers to quit work after they are married, and this naturally causes a high turnover in the textile industry and adds to the cost of production, especially in silk reeling, which requires skilled workers and where it takes about one year to bring a new worker up to a standard proficiency." Asa Matsuoka . Op cit., p 47

<sup>2</sup> For details see Report of the Labour Commission and Panandikar : *Industrial Labour in India*, p. 43

savings<sup>1</sup> We need not here examine the causes of low wages or the low cost of living Their cost of living is rising and there is a certain amount of agitation on their part for higher wages as can be seen from the fact that there is an increase in industrial disputes for higher wages. It seems that the workers in Japan are on the whole better off than what they are in this country ; their average savings are about eighty yens,<sup>2</sup> and an appreciable number of them have their own houses to live in.<sup>3</sup> The recent depression has of course worsened their position in some respects, but even then they seem to be better off than the Indian labourers.<sup>4</sup>

Besides wages, the workers in Japan also get such supplementary wages as overtime pay, special allowances, bonuses and a small payment in kind This is therefore an additional charge on the Japanese employers They have also to bear charges in regard to social insurance, compensation for accident and the welfare work that they provide for the benefit of their employees. Most of the present Japanese industrialists have been brought under feudal influences,<sup>5</sup> and they spend large sums on welfare work, provision for medical treatment, education and recreation. The aggregate costs of this work do not, however, seem to

<sup>1</sup> Cf Vide International Labour Office Report Op cit., p. 211

<sup>2</sup> Asa Matsuoka Op cit, p 44

<sup>3</sup> See International Labour Office Report op cit., p. 219

<sup>4</sup> See the evidence of Mr T Saskura before the Bombay Strike Enquiry Committee (1928-29) Proceedings published by the Bombay Mill Owners' Association, Vol I, pp 274-298

<sup>5</sup> See Harada : Op cit., p. 233

be high,<sup>1</sup> though they are certainly higher than those in our country.<sup>2</sup>

### HOUSING.

The employers, in Japan, unlike those in India, have also to spend a large amount for the housing of their employees. This is especially true of the cotton textile industry. In the early days of its establishment, the industry had to import its labour from rural areas. These labourers, mostly young peasant girls, were newcomers to the factory towns and hence the employers had to provide boarding and lodging for them. They therefore constructed what are called Dormitories where the labourers were to reside. In the early days this system gave rise to many evils<sup>3</sup> The Government tried to prohibit the evils by legislation but it found that it could not do much without an enlightened public opinion. When some of the girls returned to their homes suffering from tuberculosis and other diseases, public opinion was roused and the Government passed the first Factory Act in 1911. It is, however, important to remember that this Act was not put into force till 1916, because the Government with its paternalistic attitude towards the industry and workers wanted to give ample notice and time for the adjustment of the Japanese industry to its new burdens and responsibilities. The Government has issued from time to time many regulations for the conduct of these dormitories,

<sup>1</sup> Cf Utlej op. cit p. 141

<sup>2</sup> See Loknathan Industrial Welfare in India

<sup>3</sup> See Asa Matsuoka Op cit, p 2 and "An American Sociologist", *The socialist and Labour Movement in Japan*, p 88

and it seems that the conditions are at present better than what they were some time ago. Some writers<sup>1</sup> have criticized this system very strongly. Without going into any great detail we may say that though the housing facilities provided under this system may not be as good as those available in some western countries, they seem to be better than those available in our country—especially in cities<sup>1</sup> like Bombay. Though the provision for housing gives certain advantages to the Japanese employer,<sup>2</sup> we must also remember that he has to pay the cost thereof; he has also to pay half the price of the food provided to these workers. The Indian employer has hardly to meet any such costs.

It will be clear from what has been said so far that there does not seem to be much difference in the money wages paid in Japan and in this country; they seem to be nearly equal.<sup>3</sup> But the Japanese employers spend

<sup>1</sup> Cf. Utley *Lancashire and the Far East*

<sup>2</sup> Cf. "The Dormitory System is of tremendous advantage to the manufacturer. By this means he is certain of his labour force from day to day; absenteeism and lateness are under check. It permits him practically to double his capital by operating the machinery night and day. Leisure as well as the working hours of the employees are under his control

"But the dormitory system is also a two-edged weapon. It is a breeder of discontent and labour turnover. It smacks of being a prison. The workers chafe under their restricted freedom, they rebel against the institutional food. Every labour union in the country has marked the dormitory system for attack. Every strike is characterized by complaints about the restriction of freedom and the poor quality of food" Dorothy Orchard quoted in *Industrial Labour in Japan*, p. 323.

<sup>3</sup> See the evidence of Professor M. J. Antia before the Cotton Tariff Board (1926-27), Report Vol. IV, p. 100.

much more for their labour in the form of welfare services than what the Indian employers do.

What enables the Japanese industries to compete successfully against Indian industries in the Indian market is not the payment of wages lower than those prevailing in this country, but the higher efficiency of their labour force. Many writers have testified to this fact. This is natural in view of the fact that a large portion of the Japanese labour is literate, and receives the necessary training which is provided partly by the Japanese employers and partly by the Government. The Japanese labourers are generally free from debt and other liabilities, which affect the efficiency of the Indian labourers. The higher efficiency of Japanese labour is also due to another set of factors. The efficiency of labour in any country depends, among other things, on the capital equipment and organization with which it is aided. The machinery employed in Japanese factories is certainly more up to date and efficient than that employed in Indian factories. Without going into any further details we may say that it is difficult to characterize the Japanese competition as "unfair" as is sometimes done by interested parties.<sup>1</sup>

<sup>1</sup> Cf. "The reproach of unfair competition has frequently been levelled against the Japanese cotton industry I have tried to find any justification but without success

"The individual wages of Japan are higher than in India The fact that there are in Japan many dexterous weavers and naturally nimble and that they are not restricted by trade union regulations to half the number of looms to which they are able to attend cannot be regarded as unfair competition" Pearse *The cotton industry of Japan and China*, p 12

## INDUSTRIAL RELATIONS.

The industrial relations in Japan also seem to be better than what they are in this country, and in that respect the Japanese industrialists are more advantageously situated than their Indian competitors. Mainly on account of the growing population, and feudal traditions, the labour movement in Japan has not yet developed in even as militant a form as it has done in our country.<sup>1</sup> The employers in Japan do not look upon labour as a class irreconcilable with the capitalist, and they even pay their labour strike expenses whenever they strike,<sup>2</sup> as they feel that the labourers strike because they are misguided by a minority of labour agitators and are therefore not to blame. The Japanese labourers are also better educated than the Indian labourers and are able to think for themselves. Again it is realized that situated as Japan is in respect of raw materials, and markets for her products, it is necessary that the relations between capital and labour should be harmonious so that the interests of the nation as a whole should be

<sup>1</sup> See Ayusawa : *Industrial conditions and labour legislation in Japan*, p. 84 and Allen . op. cit., pp. 142-46

<sup>2</sup> See Harada . op. cit, pp 222-226. cf " It is not easy to treat a working man as a "hand" in Japan, or to dismiss him unprovided for when a turn in the market makes it profitable to reduce the personnel. If a man is dismissed he is given an allowance that appears generally to be equivalent to about three months' wages and sometimes an extra sum in addition. Most curious of all is the obligation that employers feel (and generally carry out) not only to pay wages throughout a strike but to give a lump sum to the strikers to see them through the expenses incurred during the strike" Crocker : op cit, p 41.

furthered.<sup>1</sup> Such an outlook on the part of the labourers and employers has made possible many technical improvements in the organisation of Japanese industries and this has led to cheaper production. We cannot say the same thing of the conditions obtaining in our country—especially in Bombay. The Indian workers are mostly illiterate. Consequently the industrial relations are far from satisfactory. Without going into details, we may say that Indian employers can secure and maintain better industrial relations by providing better conditions of life and labour to their employees, and they are sure to be compensated for the additional costs involved in this by the increased output and efficiency of their labour. If the Government in this country were to provide free and compulsory education, this would enable the Indian labourer to understand the difficulties of his particular industry and thus ensure his co-operation. Better industrial relations will also enable the Indian industrialists to organize their industries more efficiently than at present, reduce their costs of production and be able to stand successfully the competition from Japan and from other countries.

<sup>1</sup> Cf "In Japan they have got patriotic feelings. The owners of the Mills as well as the poor labourers are kith and kin. They talk with them and go with them, take them to excursions and please them in every possible way. Here they do not. The "*buria sahibs*" never care for the labourers and they never sympathise with what they lose or gain, while in Japan they feel 'Supposing my master loses, Japan loses.' Here we have not got that patriotic feeling—" Evidence of B N Karanjia before the Cotton Tariff Board (1926-27) Report Vol IV, p 242.

### JAPANESE ORGANISATION

The Japanese have developed a unique capacity for organization, and every writer on Japan's economic life has testified to the excellent organisation of their trade and industry. As the British Trade Commissioner in Japan says rationalization and increase of efficiency are the keynotes of the industrial policy of Japan <sup>1</sup>

The Japanese industrialists are organized in strong trusts and combinations so that they can follow a uniform policy in the matter of purchase of raw materials, production and sale. The Japanese cotton mills, for instance, are co-ordinated into a well-knit group under the control of the Japan Cotton Spinners Association, which enables the industry to adjust production according to the changes in demand, to determine the policy regarding selling prices, and purchase of raw materials. It has been very active in promoting the common interests of the members in connection with such questions as that of the Indian Tariff, the transport cost of Indian Cotton, the hours of work and the Chinese competition.<sup>2</sup> The same is true of the organisation of other industries.

### EFFICIENT MANAGEMENT—PROGRESSIVE METHODS.

Another secret of Japan's success is that the leaders of her industries are not conservative as in India. They

<sup>1</sup> See Report 1933 p 28. Also cf. "Japan's success is due to rare unity of purpose and concerted effort. Such reflections as these may seem out of place in an economic report but it is difficult to understand the position and prospects of Japan as a modern industrial state without appreciating the national spirit which shapes her activities." *Ibid*, p. 29.

<sup>2</sup> Cf. Report of the Cotton Tariff Board (1926-27), p. 150.

are always in search of new methods of production and for this they spend a large amount of money. They are ready to introduce the latest machinery even though the former one may not have become obsolete. In this they are of course helped by the fact that they work their machinery about twenty hours a day. Again they have received both higher technical and general training. When the Japanese firms find a promising young man they send him abroad at their expense for two or three years for a technical training.<sup>1</sup> The Government of Japan has also made ample provisions for technical and scientific training. We need not emphasize here the importance of such training for the success of modern industries. Besides, the management of industries in Japan is run very economically.

#### PURCHASE AND SALE METHODS

We should also note that Japan's methods of purchasing raw materials and selling the finished products are excellent. They have established their own houses in India and have world wide connections. Their financial resources are large. Through these houses they purchase their raw materials and sell their finished goods, the business being run on the barter basis as it were. This reduces the cost of handling the goods to a substantial extent. In the case of raw cotton, for instance, they have direct connections with the cotton producing centres not only in India but also in the U.S.A. and China. This enables them to purchase raw cotton without the intervention of the middlemen.

<sup>1</sup> See Pearse *op cit.*, p. 84.

Further, it also enables them to purchase in the market which is relatively cheaper at the time of making the purchase. When the parity of prices changes in favour of American or Chinese cotton, they at once hold off from the Indian market, for instance, and purchase their requirements elsewhere. It is claimed that in this way the Japanese spinner frequently obtains his raw cotton cheaper.<sup>1</sup> This is true also of other raw materials. In this work, they are of course helped by their own banks.

### STUDY OF DEMAND.

Japanese industrialists have taken great trouble to study the requirements of their markets to produce the goods accordingly. Systematic inquiries on the spot, exhibitions of foreign requirements and the appointment of commercial correspondents by the State, are among the steps which keep the Japanese producer in touch with the requirements of his foreign consumer. The Japanese Government and the Japanese industrialists have also opened commercial museums in India and elsewhere to acquaint the consumers abroad with the variety and the quality of Japanese production and thereby stimulate the demand for them.

<sup>1</sup> See Report of the Cotton Mission that accompanied the British Economic Mission to the Far East, 1930-31, p 17 "It is well known that the Japanese get their cotton brought to the country on most favourable terms. Particularly is this the case with Indian cotton, as to which the Cotton Spinners Association has been able to effect substantial rebates from the Shipping companies. The fact that the Japanese lines receive substantial subsidies from the Government under the Ocean Navigation Subsidy Law of 1909 makes it easy for them to grant these special rebates." *Ibid.*, p 21

The Government of Japan has also established Consular Offices in India and these offices help the Japanese merchants a great deal in the conduct of their dealings in this country. They keep a watch over the changes in the tariff on Japanese goods and various other measures of the Government of India which affect the trade of Japan.

### MERCANTILE MARINE.

Japan has also an advantage over India in another direction. The Government of Japan has fostered the growth of the Japanese mercantile marine. We need not here follow the details of the growth of the Japanese Shipping industry; we shall only point out that the existence of a national mercantile marine has enabled Japanese merchants to explore and capture new markets and retain old ones. We may mention only a recent development to illustrate this point. Till recently there was no direct service between Japan and Aden, East Africa and the Persian Gulf. The Japanese were therefore dependent on transshipment at Bombay and the Indian mills were able to compete with the Japanese mills in these markets. Since then Japan has inaugurated a direct service and this gave her an advantage over India, as a result of which the latter lost a large amount of her former trade in these markets.<sup>1</sup> The loss of this export trade has adversely affected the competitive position of the Indian Cotton Industry.

Again, the existence of a national mercantile

<sup>1</sup> Vide Hardy Report on Import Tariff on cotton piecegoods, p 42.

marine ensures cheap freights to Japanese traders. The Indian traders, on the contrary, have to pay high freight rates.<sup>1</sup> It has been calculated that both for exporting a lb. of raw cotton to Japan and for importing back to India cotton piecegoods made from it the total freight is only about 4 pies, which is the same as the freight on piecegoods alone per lb. from Bombay to Sholapur. Representations were also made to the "Indian Trade Mission to the Near East" by a number of merchants abroad that the shipping freights from India were higher than those on similar goods from certain other more distant countries.<sup>2</sup>

The payment of these high freights handicaps our commerce a great deal and the solution is the development of a national mercantile marine. At present though our trade is large it is carried on in foreign bottoms. This not only means a loss of a large amount of wealth but it also affects the nature, volume and direction of our trade. Up to 1894-5 Japan was in the same position as India is today ; her foreign trade was carried on by British and American vessels. But the Japanese Government realized the need of developing a national shipping industry by means of bounties, and

<sup>1</sup> In the course of his evidence to the Cotton Tariff Board, the then President of the Indian Merchants Chamber said : " On account of the absence of an Indian Mercantile Marine the trade of India is handicapped not in one respect only but in several. Why can Japan compete so successfully? If they had to depend on the B.I.S.N. or other companies they would not have been able to compete ; but as it is they are competing successfully by bringing cloth cheaply and taking away cotton cheaply ". See Report ; Vol III, p 265

<sup>2</sup> See Report, p 246

by reserving her trade to national bottoms.<sup>1</sup> This brought about the desired result and we find today regular Japanese services to the different parts of the world

The foreign control of shipping services and consequent high freights, however, affect the competitive position of Indian industries in the home market only indirectly. What is more important from our point of view is the high costs of transport in the interior. Without going into any details we might say that the railway rates in this country are high and are not governed by considerations of industrial development of the country.<sup>2</sup> The freight from Bombay to Calcutta for a maund of raw cotton is nearly double of what the Japanese have to pay for exporting it to their own country.<sup>3</sup> It is therefore no wonder that the Japanese industries are able to under-sell the Indian industries in the Indian market itself.

### BANKING AND FINANCE.

Another advantage that Japan has got over India

<sup>1</sup> See *Foreign Trade of Japan*, 1931, pp 96-101 and the Indo-Japanese Trade Bulletin, September 1932.

<sup>2</sup> See Tiwari Railway Rates in relation to Trade and Industry in India.

<sup>3</sup> In the course of his evidence to the Cotton Tariff Board (1926-27) Mr D P Khartan says —“ About the Japanese freight I will give you one example If you want to bring cotton from Bombay to Calcutta you have got to pay 14 annas per maund, whereas from Bombay to Japan they pay only eight annas per maund Similarly in the case of cloth Our Mills inland are charged a large amount of railway freight But when Japanese goods come from Japan to India they have got a very small amount of freight to pay.” Report Vol. III, p. 342

is the existence of a well organized banking system in that country. The Yokohama Specie Bank with its branches in the principal centres of trade all over the world grants financial assistance to the Japanese merchants on suitable terms.<sup>1</sup> There are again banking facilities in Japan for financing the national industries. In fact the Government of Japan has, as we have seen before, helped to found an excellent banking organization with a view to facilitate the growth of national trade and industry. The existence of these banking institutions obviously gives Japan an advantage over India.

<sup>1</sup> See G. W. Edwards : *Foreign commercial credits*, and Spalding : *Eastern Exchange and Finance*, pp 183-85.

upper limit of the duties which India might impose on Japanese cotton piecegoods. These were 50 per cent ad valorem or  $5\frac{1}{4}$  annas per lb whichever is higher on plain grey goods ; and 50 per cent ad valorem on other goods. It was further provided that if a specific duty was levied in future on other goods, it should not exceed  $5\frac{1}{4}$  annas per lb.

The rest of the Protocol was chiefly concerned with an arrangement by which the export of raw cotton from India to Japan was related to the import of cotton piecegoods from Japan to India. The underlying idea was to safeguard the Japanese market for Indian raw cotton, and also to see that the interests of the Indian Cotton Industry did not suffer. From the Japanese point of view, the idea was to have an assured market for her piecegoods in India, and to relieve her trade of prohibitive duties.

#### BASIC QUOTAS.

For this purpose certain basic figures were taken for mutual exchange, and changes therein in actual practice were to be adjusted according to certain provisions. It was laid down that if in 'a cotton year,'<sup>1</sup> 1 million bales of raw cotton are exported from India to Japan, Japan may send to India 325 million yards of cotton piecegoods as a basic allotment, in the corresponding 'cotton piecegoods year'<sup>2</sup>

#### CALCULATION OF THE ACTUAL QUOTA.

If the export of raw cotton from India to Japan

<sup>1</sup> "Cotton year" begins from 1st. January, "cotton piecegoods year" begins from 1st April.

was less than 1 million bales, the basic allotment of cotton piecegoods which India was to take was to be reduced by 2 million yards for every 10,000 bales of the deficit. This provision was superfluous, because Japan had taken more than 1 million bales of Indian raw cotton in the years prior to 1934, and it was not likely that this figure would be reduced. In fact, the requirement of Japan being much larger than 1 million bales, it was not proper to have adopted this as the basic figure against which to count the import of cotton piecegoods from Japan, because thereby Japan got an undue advantage.

If however the export of raw cotton from India to Japan exceeded 1 million bales, the allotment of cotton piecegoods was to be increased by  $1\frac{1}{2}$  million yards for every 10,000 bales of cotton taken in excess. The upper limit of cotton piecegoods in any piecegoods year was however fixed at 400 million yards.

If the exports of raw cotton from India to Japan exceeded  $1\frac{1}{2}$  million bales in the cotton year, the excess was to be added in the following year for the purpose of determining the amount of cotton piecegoods that might be imported in the corresponding year.

It was further laid down that re-exports of cotton or cotton piecegoods as the case may be, were not to be taken into account in making the above calculations.

#### DISTRIBUTION OF THE QUOTA OVER THE YEAR.

In order that the allotment of cotton piecegoods to which Japan was entitled may be spread over the year, and may not all be dumped during a particular short

period, provisions were made by which such distribution was regulated. Japan was allowed adjustment in the following "cotton piecegoods year" if she were either in deficit or excess in a given year, according to fixed limits.

#### CLASSIFICATION OF THE QUOTA.

The allotment of cotton piecegoods to which Japan was entitled was subject to a certain distribution among different kinds of piecegoods. For this purpose, piecegoods were divided into the following four categories, each of which had a percentage share in the allotment of the year, as indicated below :—

	Per Cent
(a) Plain greys	45
(b) Bordered greys	13
(c) Bleached (white) goods	8
(d) Coloured (printed, dyed or woven goods)	34

It was further laid down that transfers from these sub-allotments might be made in such a way that groups (a) and (d) may be increased or decreased by 10 per cent. and groups (b) and (c) may be increased or decreased by 20 per cent.

#### WORKING OF THE AGREEMENT, 1934-1937.

##### (a) *Imports of cotton piecegoods.*

In studying the working of the agreement certain outstanding facts must be borne in mind. Cotton piecegoods did not include apparel, blankets, fents, and

ready-made goods of cotton. At the same time the agreement did not refer to other textile goods which could compete with cotton goods and could be used in substitution thereof.. Among these may be mentioned, artificial silk goods ; goods made of artificial silk mixtures, and rayon goods made out of synthetic fibre. Cotton yarn could also be imported at cheap rates from which cotton piecegoods locally made might be sold cheaper than those made from Indian yarn.

We have already given details of the imports of various kinds of goods referred to above, and it is obvious that during the period of the agreement these imports have shown a remarkable increase, and have naturally competed adversely with the Indian cotton industry. Thus one of the objects of the agreement viz., to safeguard the interests of the Indian cotton industry, was defeated by the successful efforts of Japan in these alternative fields. Japan took advantage of the guaranteed market that she got in cotton piecegoods, and at the same time took advantage of want of any restriction on the import of these other goods. Even in the case of the import of yarn, she sent it at such cheap rates, that it became profitable for weavers to use it in preference to Indian yarn. It was obvious from the experience thus gained that unless all these competing textile goods were made a part of the quota, it was of little help to the Indian industry.

(b) *Exports.*

So far as the export of raw cotton from India to Japan is concerned, the basic figure of 1 million bales

was too low in view of the fact that Japan took on an average  $1\frac{1}{2}$  million bales in the years preceding 1934. This limitation prevented India from taking advantage of the expanding Japanese market in raw cotton. During the period of the agreement, the relative proportion of Indian to American cotton in the imports of Japan is low, showing that India did not get the advantage she might have expected. Whereas, the agreement left loopholes for Japan to capture the Indian market in alternative textile goods beyond the quota, India was left with the original position in which she was, by which she could send a maximum of  $1\frac{1}{2}$  million bales of raw cotton to Japan.

(c) *Restrictions in Japan.*

Besides this, there arose other disadvantages which were not contemplated at the time of the agreement. Japan introduced several other restrictions on the import of raw cotton by which even if India sent the quota amount, she would not get the full advantage thereof. Discrimination was practised in allocating freight in favour of Japanese houses, or in favour of those who also exported cotton piecegoods from Japan. Indian firms were thus put to a disadvantage. Recently a small tax on the sales of cotton in Japan has been levied and though it is of no great significance at the moment, it can be increased at a future date. Besides, Japan now controls exchange, and in allocating exchange she is in a position to discriminate against Indian firms. There is nothing in India against Japanese goods which may correspond to these restrictions on

Indian raw cotton in Japan. It may be noted that whereas India sends mainly raw cotton to Japan, Japan sends us a large variety of goods, and has freedom of trade in this country. Thus whereas by such devices Japan made the Indian trade in raw cotton which was the main part of the agreement, unprofitable to India, she could go on making more profits by increasing her exports to India in alternative textile goods as well as other goods.

(d) *Other Imports.*

This brings us to that larger variety of non-textile goods in which Japan has increased her imports to India in recent years. Infant Indian industries, which have recently come into existence mainly due to the Swadeshi movement, and which are not well organised, have suffered because of these imports. By the Safeguarding of Industries Act of 1934, the Government of India gave special protection in a few cases. But the increase of specific duties in such cases was soon negatived by the reduction of prices by Japan. In other words, the position of these small industries became insecure, and unless these were adequately protected in time, they were likely to go out of existence.

Among the industries thus affected, the following may be mentioned :—

- (1) Buttons.
- (2) Clocks and Time pieces.
- (3) Glassware.
- (4) Mats and Mattings.
- (5) Cotton and Wool Hosiery.

- (6) Cycles.
- (7) Pencils.
- (8) Silk goods.
- (9) Wire and Wire nails.
- (10) Chemicals
- (11) Earthenware and Porcelain.
- (12) Enamelled Ironware.
- (13) Paints.
- (14) Metal Lamps.
- (15) Soap.
- (16) Electric bulbs.
- (17) Tiles.
- (18) Perfumery.
- (19) Rubber articles.
- (20) Beer.

#### NEGOTIATIONS FOR A FRESH AGREEMENT.

As the Agreement was to come to an end in March 1937, negotiations for a renewal of the same were begun some time in the middle of 1936. It is now well known that the Japanese delegation was not willing to consider points outside the scope of the Agreement of 1934, and their obstinacy was so great that at times it was feared that the negotiations might be terminated without any result. As the negotiations were with reference to the Protocol of 1934, and if a deadlock ensued, the Convention of 1934 might remain in force without the Protocol, the Government of India gave notice on 21st October 1936 of the termination of the Convention on the due date. It was understood that if the negotiations were successful, the notice would be withdrawn.

## NEED FOR A COMPREHENSIVE AGREEMENT.

Though this step was taken, the Government of India were not strong enough to hold out in insisting that the new agreement should be more comprehensive, and should have reference to the other imports of Japan, some of which competed with the products of the Indian Cotton Industry, and others with those of minor industries, which were struggling to exist and were in need of assistance. It was not possible for these industries to fulfil the rigid conditions of "Discriminating Protection"; it was neither possible for the Government of India to afford some help to them by means of restrictions on Japanese imports, as part of the new agreement. In consequence, these industries were left to take care of themselves. In the case of competing textile goods not covered by the quota, the Government of India decided to take independent action to help the local industry in such a manner that the terms of the Convention which granted most favoured nation treatment to Japan were not violated.

## JAPAN'S NEED FOR OUR COTTON.

In thus yielding to Japanese astuteness, the Government of India were ostensibly moved by the interests of the Indian cotton grower. These were considered to be the guiding factor, because there was no other large market in which he could sell his product. While this concern was desirable, it is submitted, that it was exaggerated. The position of the Indian cotton grower needs paramount consideration; but it must be remembered that it is not possible for Japan to do

without Indian cotton for a long period. Japan may hold out for a time by boycotting Indian cotton ; she may obtain some additional supplies from China, Manchukuo and the U. S. A., but the supply from India is so large that it is not possible for Japan to fill the gap permanently or for a long period without serious detriment to her cotton industry. It is true that the party affected in Japan, namely, the Japanese cotton industry is highly organised ; it is also true that the party affected in India, namely, the Indian grower of cotton is not organised and is weak. The right thing to do therefore in order to exploit the need of Japan for Indian cotton was to organise the trade in Indian raw cotton, and even to guarantee the parties concerned some financial aid till the Japanese were brought round.

It would have been in the fitness of things to tax, if necessary, the Indian industries concerned, who were ultimately likely to gain, in order to help the cotton grower during a transition period in which the Japanese were likely to hold out. But this was not even thought of. Instead of India exploiting the need of Japan to buy our raw cotton for her industry, we allowed Japan to exploit our need to sell our cotton to her. An appreciation of this unfortunate position is required to understand fully the implications of the new agreement with Japan.

#### THE SEPARATE AGREEMENT WITH BURMA.

One other factor may be referred to before we discuss the details of the new agreement. The separation of Burma from India necessitated certain changes in

the quota of imports and exports. One of the reasons why the Japanese delegation protracted the negotiations was that they wanted to be sure of their position with Burma. Once an agreement with Burma was made, they were in a position to come to terms with India. An agreement similar to that with India was made between Japan and Burma by which the imports of Japanese cotton piecegoods to Burma were limited to 42 million yards, and Japan agreed to purchase 65 per cent of the exportable surplus of the Burmese cotton crop.<sup>1</sup> In the light of this, it will now be easy to follow the terms of the new agreement<sup>2</sup> between India and Japan which was announced on 12th April 1937, subject to formal ratification in London.

In the first place, the notice of denunciation of the Convention of 1934 given by India in October 1936, was to be withdrawn, and the same Convention was to remain in force for the period of the new Protocol, that is, three years.

The new Protocol was to come into force immediately and remain in operation till 31st March, 1940. The new Protocol was to be the same in substance as the old one, except that certain detail changes were made as given below :—

(a) The basic quota of Japanese piecegoods to be exported to India is reduced to 283 million yards and is linked with an export of 1 million bales of cotton from India to Japan. The figure 283 million yards was arrived at by deducting the Burmese quota of 42

<sup>1</sup> Appendix III.

<sup>2</sup> Appendix IV

million yards from the original quota of 325 million yards according to the agreement of 1934.

(b) In case the export of Indian raw cotton exceeds 1 million bales, the quota of cotton piecegoods will be increased by  $1\frac{1}{2}$  million yards per every 10,000 bales of cotton, provided that the maximum limit of the quota is 358 million yards. This was also arrived at by deducting the Burmese quota of 42 million yards from the maximum of 400 million yards fixed in 1934.

(c) In case the quantity of raw cotton exported from India exceeds  $1\frac{1}{2}$  million bales in any cotton year, the excess is to be added to the export of the following year to determine the Japanese quota, but this will not be cumulative

(d) The division of the year for the purpose of calculating the quota is on the old lines, with the exception that the figures are adjusted with reference to the new quota limits.

(e) Re-exports are not to be taken into account, except those to Burma.

(f) The quota for piecegoods has been classified as under with the allotment fixed for each category as shown below :—

	Per cent.
Plain greys	40
Bordered greys	13
Bleached (white) goods	10
Printed goods	20
Other coloured dyed or woven goods.	17
	<hr/> 100

(g) A new provision is added for cotton fents. Fents are defined as bona fide remnants not exceeding four yards in length. Such fents are not to be included in the quota for cotton piecegoods to be sent by Japan. But the quantity of cotton fents that Japan may send in any cotton piecegoods year is limited to 895 million yards. If in any year more are imported, the excess is to be deducted from the quota of the next year ; if less are imported, the deficit is to be added to the quota of the next year.

. Simultaneously with this, steps were taken by the Government of India to prevent the undue competition of artificial silk goods with the local textile industry. The importation of artificial silk fents has been prohibited. The duty on artificial silk fabrics and artificial silk mixture fabrics has been increased by about one anna per square yard from 1st April 1937.<sup>1</sup>

<sup>1</sup> The duty chargeable under the First Schedule to the Act is increased to the amount and on the articles specified below —

48 (1) Fabrics containing more than 90 per cent artificial silk, not of British manufacture, will be charged 50 per cent. ad valorem or five annas per square yard, whichever is higher. Up to the present, the duty has been 50 per cent ad valorem or four annas per square yard, whichever is higher.

48 (5) Fabrics containing between 10 per cent and 90 per cent artificial silk divided into .

(a) Fabrics containing 50 per cent or more cotton not of British manufacture will be charged 50 per cent ad valorem or four annas per square yard, whichever is higher. Up to the present, the rate has been 50 per cent ad valorem, or three and a quarter annas.

(b) Fabrics containing less than 50 per cent cotton not of British manufacture will be charged 50 per cent ad Valorem or five annas per square yard.

Up to the present the duty has been 50 per cent. ad valorem or four annas per square yard.

So far as the quota is concerned, Japan is in an advantageous position. Japan sent about 70 million yards of cotton piecegoods to Burma in recent years. This was part of the quota. Now that the Burmese quota of 42 million yards is deducted from the original figure, it gives an extra margin of about 30 million yards to Japan to send to India. What she lost in the Burmese market, she has gained in the Indian market. It may be said that India has a corresponding scope in Burma due to the limitation of the Japanese quota in that country, but it must be remembered that such scope will be shared with Lancashire goods.

In recent years imports of Japanese cotton fents have been about 20 million yards. In view of this, the limit of 895 million yards which is equal to  $2\frac{1}{2}$  per cent of the upper limit for cotton piecegoods is good, from the Indian point of view. It may be pointed out however, that apparel, ready-made goods and such other things are not mentioned in the protocol. And though the duty on artificial silk goods has been raised, we need not be surprised if Japan overcomes this obstacle in a short time. To what extent the interests of the Indian Cotton Industry have been really safeguarded, time alone will show ; for the present we may refer to the widespread discontent among the industrialists including those who were among the panel of non-official

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*(Footnote continued from p 189)*

The net effect of the notification, therefore, is to retain the 50 per cent ad valorem, but increase the duty per square yard under 48 (1) (B) by one anna, under 48 (5) A by three quarters of an anna, and under 48 (5) B by one anna.

advisers regarding the terms of the Protocol. So far as the minor industries are concerned, they are left to take care of themselves. It is true that the most favoured nation clause creates difficulties in this matter, but there are many ways in which the position of these industries could have been strengthened. If the Government of India had realised that Japan wants to sell to India a large variety of goods, and also buy from India raw cotton to feed her cotton industry, and also that Japan's economic organisation vitally depends on the condition of these export industries, we would have got much better terms, which would have helped the cotton grower and the industrialists of India, small and large, at the same time.

In conclusion, we may mention the fact that the Government of India have appointed a special officer to study the condition of those industries which have been adversely suffering due to Japanese competition. Besides, a Trade Commissioner for India has now been appointed in Osaka, and the officer concerned has already begun work. His duty will be to watch the interests of Indian trade in Japan, and promote better relations.



## APPENDIX I.

### *Indo-Japanese Trade Agreement, 1934.*

#### CONVENTION.

##### ARTICLE I.

The territories to which the present Convention applies are, on the part of His Majesty the King of Great Britain, Ireland and the British Dominions beyond the Seas, Emperor of India, British India, together with States in India which, by treaty with His Majesty the King or otherwise, may be entitled to be placed with regard to the stipulations of the present Convention on the same footing as British India (such territories being hereinafter referred to as India) , and on the part of His Majesty the Emperor of Japan, all the territories and possessions belonging to or administered by His Majesty the Emperor (such territories being hereinafter referred to as Japan).

##### ARTICLE II.

Articles produced or manufactured in the territories of one of the High Contracting Parties, on importation into the territories of the other, from whatever place arriving, shall not be subjected to duties or charges other or higher than those imposed on like articles produced or manufactured in any other foreign country.

##### ARTICLE III.

Notwithstanding anything contained in the present Convention, the Government of India shall have the right of imposing or modifying from time to time special customs duties on the importation into India of articles produced or manufactured in any other foreign country, at such rates as the Government of India may consider to be necessary to correct the effects of any variation of the exchange value of the yen relative to the rupee subsequent to the 31st day of December, 1933 , provided that no modification in any such rate shall be made until it has been in force for at least five weeks

In imposing or modifying or on being requested by the Government of Japan to modify such special customs duties, the Government of India shall give full consideration to all relevant factors which tend to raise the export prices of articles produced or manufactured in Japan, and shall limit the rates of such duties to what is necessary to correct the effects of any

variation of the exchange value of the yen relative to the rupee on the duty paid value of articles produced or manufactured in Japan and imported into India.

Reciprocally, the Government of Japan shall have the right of imposing or modifying from time to time special customs duties on the importation into Japan of articles produced or manufactured in India, other or higher than those imposed on like articles produced or manufactured in any other foreign country, at such rates as the Government of Japan may consider to be necessary to correct the effects of any variation of the exchange value of the rupee relative to the yen, provided that such right shall not accrue to the Government of Japan so long as the exchange value of the rupee relative to the yen is not below the value of 0.732 yen, and that no modification of any such rate shall be made until it has been in force for at least five weeks.

In imposing or modifying or on being requested by the Government of India to modify such special custom duties, the Government of Japan shall give full consideration to all relevant factors which tend to raise the export prices of articles produced or manufactured in India, and shall limit the rates of such duties to what is necessary to correct the effects of any variation of the exchange value of the rupee below 0.732 yen on the duty-paid value of articles produced or manufactured in India and imported into Japan.

#### ARTICLE IV

While reserving to the Government of India and to the Government of Japan the right to make such changes in their customs tariffs as may be necessary for the protection of their own interests, the High Contracting Parties agree that when any modification of its customs tariff by either country results in the trade interests of the other being adversely affected in any appreciable measure, the Governments of the two countries shall, upon the request of the Government of the country adversely affected, forthwith enter into negotiations with the object of reconciling as far as possible the interests of the two countries.

#### ARTICLE V.

The present Convention shall be ratified. The instruments of ratification shall be exchanged in London as soon as possible. The date on which the instrument of ratification of each of the High Contracting Parties has been completed will be communicated to the other through diplomatic channels, and the present Convention shall enter into force, in advance of the exchange of the instruments of ratification, as from the date on which the latter of the two communications required under the present Article shall have been made.

## ARTICLE VI.

The present Convention shall remain in force until the 31st day of March, 1937.

In case neither of the High Contracting Parties shall have given notice to the other six months before the said date of his intention to terminate the Convention, it shall continue operative until the expiration of six months from the date on which either of the High Contracting Parties shall have given notice of termination to the other.

In witness whereof the respective Plenipotentiaries have signed the present Convention and have affixed thereto their seals

Done at London, in duplicate, this twelfth day the seventh month of the 9th year of Showa, corresponding to the twelfth day of July, 1934.

## APPENDIX II.

### *Indo-Japanese Trade Agreement, 1934.*

#### PROTOCOL.

##### ARTICLE I.

For the purposes of the present Protocol.—

the expression "cotton year" means a year beginning on the 1st day of January,

the expression "cotton piecegoods year" means a year beginning on the 1st day of April,

a cotton piecegoods year and the cotton year in which that cotton piecegoods year begins are referred to as "corresponding", and the expression "yard" means a linear yard

##### ARTICLE II.

The customs duties to be imposed on importation into India of cotton piecegoods manufactured in Japan shall not exceed the following rates—

(a) plain grey—50 per centum *ad valorem* or 5½ annas per pound, whichever is higher,

(b) others—50 per centum *ad valorem*.

If hereafter the Government of India should decide to impose a specific duty on cotton piecegoods other than plain greys, it will not impose on such piecegoods, being the manufacture of Japan, a specific duty exceeding 5½ annas per pound.

##### ARTICLE III.

(1) If in any cotton year 1 million bales of raw cotton are exported from India to Japan, the quantity of cotton piecegoods which may be exported from Japan to India in the corresponding cotton piecegoods year shall be a basic allotment of 325 million yards.

(2) If the exports of raw cotton from India to Japan in any cotton year are less than 1 million bales, the allotment of cotton piecegoods for the corresponding cotton piecegoods year shall be the basic allotment diminished by 2 million yards for every 10,000 bales of the deficit or for any residual quantity thereof exceeding 5,000 bales.

(3) If the exports of raw cotton from India to Japan in any cotton year exceed 1 million bales, the allotment of cotton piecegoods for the cor-

responding cotton piecegoods year shall be the basic allotment increased by  $1\frac{1}{2}$  million yards for every 10,000 bales of the excess or for any residual quantity thereof exceeding 5,000 bales,

Provided that the allotment of cotton piecegoods shall not in any case exceed 400 million yards for any cotton piecegoods year.

(4) If the exports of raw cotton from India to Japan in any cotton year exceed  $1\frac{1}{2}$  million bales, the excess shall be added to the quantity of raw cotton exported from India to Japan in the following cotton year for the purpose of determining the allotment of cotton piecegoods for the cotton piecegoods year corresponding to such following cotton year

(5) For the purposes of the calculations under the present Article and under Articles 4, 5, 6 and 7, any raw cotton or cotton piecegoods which have been imported and then re-exported shall be excluded

#### ARTICLE IV

(1) The allotment of cotton piecegoods which may be exported from Japan to India during the first half of any cotton piecegoods year shall be 200 million yards,

Provided that, if in the first half of any cotton piecegoods year the exports of cotton piecegoods from Japan to India exceed the allotment for the whole of that cotton piecegoods year, the allotment for the first half of the following cotton piecegoods year shall be 200 million yards less such excess.

(2) The allotment of cotton piecegoods which may be exported from Japan to India during the second half of any cotton piecegoods year shall be the annual allotment for that year less 200 million yards;

Provided that, if the quantity exported from Japan to India in the first half of any cotton piecegoods year is less than 200 million yards, as increased or diminished under Article 5, the allotment for the second half of that cotton piecegoods year shall include the quantity of the deficit up to quantity not exceeding 20 million yards

#### ARTICLE V.

Notwithstanding anything hereinbefore contained,

(a) If less than the allotment for any cotton piecegoods year is exported from Japan to India in that year, the quantity of the deficit up to a quantity not exceeding 20 million yards may be exported in the first half of the following cotton piecegoods year in addition to the allotment for that half-year, and

(b) A quantity not exceeding 20 million yards of cotton piecegoods may be exported from Japan to India in any cotton piecegoods year, other than the cotton piecegoods year in which the present Protocol terminates, in addition to the allotment for that year, but such excess shall be deducted from the allotment for the first half of the following cotton piecegoods year.

## ARTICLE VI

If the present Protocol should come into effect at any time other than the beginning of a cotton piecegoods year, the first cotton year shall, for the purposes of the Protocol be deemed to begin on the 1st day of January, 1934, and the first cotton piecegoods year on the 1st day of April, 1934

## ARTICLE VII

(1) For the purposes of the present Protocol, cotton piecegoods shall be divided into the four categories of :—

- (a) Plain greys,
- (b) Bordered greys,
- (c) Bleached (white) goods, and
- (d) Coloured (printed, dyed or woven) goods,

and the allotment for any cotton piecegoods year shall be divided into sub-allotments among these four categories, consisting of portions of the allotment as follows :—

Plain greys	45 per centum.
Bordered greys	13       "
Bleached (white) goods	8       "
Coloured (printed, dyed or woven) goods	34       "

and, save as provided in paragraph (2), the export of cotton piecegoods in each category in any cotton piecegoods year shall be restricted to the said portions.

(2) Transfers may be made from one sub-allotment to another, subject to the following conditions :—

- (a) The allotment for any cotton piecegoods year shall not thereby be increased,
- (b) The amount transferred from a sub-allotment for bordered greys or from a sub-allotment for bleached (white) goods shall not exceed 20 per centum of the amount of such sub-allotment, and the amount transferred from any other sub-allotment shall not exceed 10 per centum of the amount of such sub-allotment; and
- (c) A sub-allotment for bordered greys or a sub-allotment for bleached (white) goods shall not be increased by more than 20 per centum of the amount of such sub-allotment and any other sub-allotment shall not be increased by more than 10 per centum of the amount of such sub-allotment.

(3) The principles of the present Article shall apply also to quantities of cotton piecegoods exported from Japan to India under Article 5 in excess of the yearly allotments, as if such quantities were yearly allotments.

## ARTICLE VIII

Nothing contained in the present Protocol shall be deemed to affect the rights of either High Contracting Party under Article 2 or Article 3 of the Convention regarding the Commercial Relations between India and Japan of this day's date.

## ARTICLE IX.

The present Protocol shall come into force simultaneously with the Convention regarding the Commercial Relations between India and Japan of this day's date and shall remain in force until the 31st day of March, 1937

Done in London, in duplicate, this twelfth day of the seventh month of the 9th year of Showa, corresponding to the twelfth day of July, 1934.

## APPENDIX III.

### *Agreement between Japan and Burma, 1937*

#### PROTOCOL.

##### ARTICLE I.

For the purposes of the present Protocol.—

the expression "raw cotton" means cotton grown and produced in Burma ;

the expression "cotton year" means a year beginning on the 1st day of October ,

the expression "cotton piecegoods year" means a year beginning on the 1st day of April ,

a cotton piecegoods year and the cotton year in which that cotton piecegoods year begins are referred to as "corresponding" , and the expression "yard" means a linear yard.

##### ARTICLE II.

The customs duties to be imposed on importation into Burma of cotton piecegoods manufactured in Japan shall not exceed the following rates .

(a) plain greys—50 per centum *ad valorem* or 5½ annas per pound, whichever is higher ;

(b) others—50 per centum *ad valorem*

If hereafter the Government of Burma should decide to impose a specific duty on cotton piecegoods other than plain greys, it will not impose on such piecegoods being the manufacture of Japan a specific duty exceeding 5½ annas per pound.

##### ARTICLE III.

(1) If in any cotton year a quantity of raw cotton which is not less than 65 per centum of the total quantity of raw cotton available for export from Burma in that year or 70,000 bales, whichever quantity is less, is exported from Burma to Japan the quantity of cotton piecegoods which may be exported from Japan to Burma in the corresponding cotton piecegoods year shall be a basic allotment of 42 million yards

(2) The quantity of raw cotton estimated in the official forecast of the cotton crop in Burma published in the *Burma Gazette* in December to be available for export shall be accepted provisionally for the purposes of

paragraph (1) to be the total quantity of raw cotton available for export in that cotton year, and the sum of the total quantity of raw cotton exported from Burma up to the 31st May in the same cotton year and of the quantity of raw cotton remaining available in Burma for export on that date, added together, shall be accepted finally for the purposes of paragraph (1) to be the total quantity of raw cotton available for export in that cotton year.

(3) If the exports of raw cotton from Burma to Japan in anyone cotton year exceed 65 per centum of the total quantity of raw cotton available for export from Burma in that year the excess shall be added to the quantity of raw cotton exported from Burma to Japan in the immediately following cotton year for the purpose of determining the allotment of cotton piecegoods for the cotton piecegoods year corresponding to such following cotton year

Provided that the quantity to be added to the quantity exported in the following cotton year shall not exceed 65 per centum of the quantity by which the quantity accepted provisionally under paragraph (2) to be the total quantity available for export exceeds the quantity accepted finally under paragraph (2) to be the total quantity available for export

(4) If the exports of raw cotton from Burma to Japan in any cotton year are less than 65 per centum of the total quantity of raw cotton available for export from Burma in that year or 70,000 bales, whichever quantity is less, the allotment of cotton piecegoods for the corresponding cotton piecegoods year shall be the basic allotment diminished by 300,000 yards for every 1,000 bales of the deficit or for any residual quantity thereof exceeding 500 bales provided that no such reduction of the basic allotment shall be made if the average of the market prices at Rangoon of Myingyan cotton of the standard known as "M R F" throughout the said cotton year exceeds the average of the market prices at Bombay of Oomra fine cotton throughout the said cotton year, or if, although Japan shall have exported less than 65 per centum of the total quantity of raw cotton available for export in the said cotton year or 70,000 bales, whichever quantity is less, no further supplies of raw cotton are available for export during the said cotton year.

(5) For the purposes of the calculations under the present Article and under Articles 4, 5, 6, and 8 any raw cotton or cotton piecegoods which have been imported and then re-exported elsewhere than to India shall be excluded

#### ARTICLE IV

Except as hereinafter provided the allotment of cotton piecegoods which may be exported from Japan to Burma during the first half of any cotton piecegoods year shall be 21 million yards, and the allotment of cotton piece-

goods which may be exported from Japan to Burma during the second half of any cotton piecegoods year shall be 21 million yards diminished by any reduction made under paragraph (4) of Article 3

Provided that if the quantity exported from Japan to Burma in the first half of any cotton piecegoods year is less than 21 million yards as increased or diminished under Article 5, the allotment for the second half of that cotton piecegoods year shall include the quantity of the deficit up to a quantity not exceeding 2,625,000 yards,

And provided that if the quantity exported from Japan to Burma in the first half of any cotton piecegoods year exceeds 21 million yards as increased or diminished under Article 5, the allotment for the second half of that cotton piecegoods year shall be diminished by the amount of such excess

#### ARTICLE V.

Notwithstanding anything hereinbefore contained

(a) if less than the allotment for any cotton piecegoods year is exported from Japan to Burma in that year the quantity of the deficit up to a quantity not exceeding 2,625,000 yards may be exported in the first half of the following cotton piecegoods year in addition to the allotment for that half year ; and

(b) a quantity not exceeding 2,625,000 yards of cotton piecegoods may be exported from Japan to Burma in any cotton piecegoods year, other than the cotton piecegoods year in which the present Protocol terminates in addition to the allotment for that year ; but such excess shall be deducted from the allotment for the first half of the following cotton piecegoods year

#### ARTICLE VI.

Cotton fents i.e., *bona fide* remnants not exceeding four yards of length, shall not be included in the quantity of cotton piecegoods which may be exported from Japan to Burma under Articles 3, 4, and 5 but the quantity of cotton fents which may be exported from Japan to Burma in any cotton piecegoods year shall not exceed 1,050,000 yards being 2½ per centum of the basic allotment.

#### ARTICLE VII

For the purposes of the present Protocol the first cotton year shall be deemed to commence on the first day of October, 1936, and the first cotton piecegoods year on the 1st day of April, 1937.

#### ARTICLE VIII.

(1) For the purpose of the present Protocol cotton piecegoods shall be divided into the four categories of —

(a) Greys,

- (b) bleached (white) goods,
- (c) coloured printed goods, and
- (d) coloured dyed or woven goods,

and the allotment for any cotton piecegoods year shall be divided into sub-allotments among these four categories, consisting of portions of the allotment as follows

greys	15 per centum
bleached (white) goods	10       "
coloured printed goods	45       "
coloured dyed or woven goods	30

and save as provided in paragraph (2), the export of cotton piecegoods in each category in any cotton piecegoods year shall be restricted to the said portions

(2) Transfers may be made from one sub-allotment to another, subject to the following conditions.

(a) The allotment for any cotton piecegoods year shall not thereby be increased,

(b) The amount transferred from a sub-allotment for greys or from a sub-allotment for bleached (white) goods or from a sub-allotment for coloured dyed or woven goods shall not exceed 20 per centum of the amount of such sub-allotment and the amount transferred from a sub-allotment for coloured printed goods shall not exceed 5 per centum of the amount of such sub-allotment,

(c) A sub-allotment for greys or a sub-allotment for bleached (white) goods or a sub-allotment for coloured dyed or woven goods shall not be increased by more than 20 per centum of the amount of such sub-allotment and a sub-allotment for coloured printed goods shall not be increased by more than 5 per centum of the amount of such sub-allotment.

(3) The principles of the present Article shall apply also to quantities of cotton piecegoods exported from Japan to Burma under Article 5 in excess of the yearly allotments as if such quantities were yearly allotments.

#### ARTICLE IX.

Nothing contained in the present Protocol shall be deemed to affect the rights of either High Contracting Party under the Convention regarding the Commercial Relations between Burma and Japan of this day's date.

#### ARTICLE X

The present Protocol shall come into force simultaneously with the Convention regarding the Commercial Relations between Burma and Japan of this Day's date and shall remain in force until the 31st day of March 1940.

## APPENDIX IV<sup>f</sup>

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### *The announcement regarding the new Indo-Japanese Agreement, 1937<sup>1</sup>*

(1) The notice of denunciation given on October 21, 1936, of the convention regarding commercial relations between India and Japan, signed in London on July 12, 1934, shall, with the concurrence of the Government of Japan, be withdrawn and the said convention shall continue in force throughout the period of which the new Protocol shall remain in force .

(2) There shall be a new protocol regarding importation of Japanese cotton piecegoods into India to take the place of the protocol concluded at the time of signing the convention on July 12, 1934, and which by terms of Article 9 of it expired on March 31, 1937.

#### *Modifications.*

(3) This new protocol shall come into force immediately on signature and shall remain in force until March 31, 1940. It shall provide for its purpose that the first cotton year shall commence on January 1, 1937, and the first cotton piecegoods year on April 1, 1937.

(4) Except for the following modifications, the substance of the new protocol will be exactly similar in substance to the former protocol, those modifications being .

(a) the basic quota of Japanese cotton piecegoods to be exported to India in the piecegoods year shall be 283,000,000 yards and it shall be linked with 1,000,000 bales of Indian raw cotton exported to Japan in the corresponding cotton year,

(b) in case the export of Indian raw cotton to Japan in any cotton year should exceed 1,000,000 bales the quota of Japanese cotton piecegoods for the corresponding piecegoods year shall be determined by increasing the above basic quota at the rate of 1,500,000 yards to every additional 10,000 bales, provided that quota should in no case exceed 358,000,000 yards,

(c) in case the export of Indian raw cotton to Japan in any cotton year should exceed 1,500,000 bales the quantity thus exported in excess of

<sup>1</sup> The text of the new agreement has not been published till the time of going to the press.

1,500,000 bales shall for the purpose of determining the relevant quota of Japanese cotton piecegoods be added to the quantity of raw cotton exported to Japan in the immediately following cotton year, it being understood that this carry over will not be cumulative.

*Division of Year.*

(d) raw cotton imported into Japan and then re-exported to a country other than Burma and cotton piecegoods which have been imported into India and then re-exported to a country other than Burma shall not be regarded as exports to Japan and imports into India, respectively,

(e) the piecegoods year shall continue to be divided into the same yearly periods as in the former protocol, and the same conditions shall apply, except that the quota for the first half-yearly period shall be 179,000,000 instead of 200,000,000 yards and the transfer from the quota for the first half yearly period to the quota for the second half yearly period shall be permitted up to a maximum of 25,000,000 yards between the quota for any cotton piecegoods year and that for the first half of the immediately following cotton piecegoods year, and a quantity not exceeding 25,000,000 yards may be imported in the first half of any cotton piecegoods year in addition to the allotment for that period, but such excess shall be deducted from the allotment for the second half of the same cotton piecegoods year,

*Piecegoods quota.*

(f) in the new protocol the quota for piecegoods shall be classified and apportioned as follows plain greys 40 per cent., bordered greys 13 per cent., bleached (white) goods 10 per cent., printed goods 20 per cent. and other coloured (dyed or woven) goods 17 per cent.,

(g) cotton fents, that is bona fide remnants not exceeding four yards in length shall not be included in the cotton piecegoods quota, but the quantity of cotton fents which may be exported from Japan to India in any cotton piecegoods year shall not exceed 8,950,000 yards, provided that more than this quota of cotton fents may be imported into India in any one cotton piecegoods year, on condition, the quantity in excess shall be deducted from the quota of the following cotton piecegoods year. If less than this quota of cotton fents is exported from Japan to India in any cotton piecegoods year the quantity of the deficit may be added to the quota for the following year.

(5) Finally, as there will be no hiatus between the last cotton and cotton piecegoods years of the former protocol and the first such years of the new protocol the excess of over 1,500,000 bales of raw cotton exported from India, including Burma, to Japan in the cotton year 1936 shall be carried forward to the cotton year 1937 for the purpose of determining the

quota for cotton piecegoods that may be imported into India from Japan in the cotton piecegoods year 1937-38, and the excess, if any, of imports of cotton piecegoods into India, including Burma, in the cotton piecegoods year 1936-37, after full adjustment between the categories as provided for in Article 7 of the former protocol, shall be deducted from the piecegoods year 1937-38. Further, should the quantity of piecegoods imported into India and Burma in the cotton piecegoods year 1936-37 after such adjustment, be less than 400,000,000 yards, the quantity of deficit, up to a quantity not exceeding 25,000,000 yards shall be added to the quota for the first half of the cotton piecegoods year 1937-38.

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